

MBA vs. Entrepreneurs: Who Has the Right Stuff for Tough Times?

Bill Taylor, HBR Blog
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The one growth business in this shrinking economy is speculation about where MBAs and other elite students will flock now that Wall Street is a vast wasteland. "What will new map of talent flow look like?" wondered a piece last month in the *New York Times*. The tentative answer: towards government, the sciences, and teaching, "while fewer shiny young minds are embarking on careers in finance and business consulting."

Just five days after that article, the *Times* was at it again, chronicling the difficult career choices for business students, including one former Goldman Sachs intern who started her own shoe-importing company, and a Wharton grad contemplating rabbinical studies. (He wound up in real estate.)

Now, I understand the use of students from elite business schools as a proxy for "talent" in the business world. But as the economy experiences the most deep-seated changes in decades, maybe it's time to change our minds about what kinds of people are best-equipped to become business leaders. Is our fascination with the comings and goings of MBAs as obsolete as our lionization of investment bankers and hedge-fund managers? Is it time to look elsewhere for the "best and the brightest" of what business has to offer?

One place to look for answers is the fascinating research of Professor Saras Sarasvathy, who teaches entrepreneurship at the Darden Graduate School of Business at the University of Virginia. It's been a long time since I've encountered academic research as original, relevant, and fascinating as what Professor Sarasvathy has done, in a series of essays, white papers, and a book. Her work revolves around one big question: What makes entrepreneurs "entrepreneurial?" Specifically, is there such a thing as "entrepreneurial thinking" — and does it differ in important ways from, say, how MBAs think about problems and seize opportunities?

The answer, Sarasvathy concludes, is an emphatic yes — and the differences boil down to the "causal" reasoning used by MBAs versus the "effectual" reasoning used by entrepreneurs. Causal reasoning, she explains, "begins with a pre-determined goal and a given set of means, and seeks to identify the optimal — fastest, cheapest, most efficient, etc. — alternative to achieve that goal." This is the world of exhaustive business plans, microscopic ROI calculations, and portfolio diversification.

Effectual reasoning, on the other hand, "does not begin with a specific goal. Instead, it begins with a given set of means and allows goals to emerge contingently over time from the varied imagination and diverse aspirations of the founders and the people they interact with." This is the world of bootstrapping, rapid prototyping, and guerilla marketing.

The more Sarasvathy explains the differences in the two styles of thinking, the more obvious it becomes which style matches the times. Causal reasoning is about how much you expect to gain; effectual reasoning is about how much you can afford to lose. Causal reasoning revolves around competitive analysis and zero-sum logic; effectual reasoning embraces networks and partnerships. Causal reasoning "urges the exploitation of pre-existing knowledge"; effectual reasoning stresses the inevitability of surprises and the leveraging of options.

The difference in mindset, Sarasvathy concludes, boils down to a different take on the future. "Causal reasoning is based on the logic, *To the extent that we can predict the future, we can control it,*" she writes. That's why MBAs and big companies spend so much time on focus groups, market research, and statistical models. "Effectual reasoning, however, is based on the logic, *To the extent that we can control the future, we do not need to predict it.*" How do you control the future? By inventing it yourself — marshalling scarce resources, understanding that surprises are to be expected rather than avoided, reacting to them fast.

Ultimately, she says, entrepreneurs begin with three simple sets of resources: "Who they are" — their values, skills, and tastes; "What they know" — their education, expertise, and experience; and "Whom they know" — their friends, allies, and networks. "Using these means, the entrepreneurs begin to imagine and implement possible effects that can be created with them...Plans are made and unmade and revised and recast through action and interactions with others on a daily basis."

Sounds like a plan to me! So the next time you read an article about what MBAs are doing, don't forget to think about what entrepreneurs are doing as well. They're the ones with the right stuff for tough times.