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## Transforming a Region into a Vibrant Entrepreneurial Economy: How to Create the Multiplier Effect

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*Sankaran Venkataraman is business administration professor at the Darden Graduate School of Business Administration, University of Virginia, and visiting professor of entrepreneurship and business at the Singapore Management University. An international scholar and expert in the field of entrepreneurship, Venkataraman was part of a founding team that created and developed a highly successful new business venture in Bangalore, India. He consults both with Fortune 500 firms and small companies, and is adviser to the Entrepreneurial Forum, an arm of the U.S. Department of Commerce aimed at promoting trade through entrepreneurship around the world.*

*At a recent seminar in Singapore, Venkataraman explored the question, "What does it take for a nascent entrepreneurial region to create the multiplier effect necessary to transform itself into a vibrant entrepreneurial economy?" According to him, "institutional specialisation, division of labour, the architecture of entrepreneurial sub-systems and intangible cultures all play critical roles."*

*Venkataraman cited the parable of two watch-makers, Hora and Tempus -- first narrated by Nobel-winning economist Herbert Simon -- in which Tempus took 4000 times as long as Tempus to build a watch. In the Tempus system, the watchmaker built his watch by assembling it part by part, while Hora built his watches sub-system by sub-system which were supplied by various specialists. In a Tempus-like system, a setback to any part of the assembly process would result in a setback to the entire organisation's building process because there is no functional specialisation at all. On the contrary, a Hora-like system has the agility to isolate these adverse effects to certain specialised parts of the system without impacting the whole.*

*"In this parable, watches are new venture firms, Hora and Tempus are the few heroic entrepreneurs, subassemblies refer to different groups of people specialising in specific areas to take the idea to market, while the interruptions refer to venture failures," explains Venkataraman. He suggests that a transformation from a Tempus-like system to a Hora-like system in the evolution of entrepreneurship will have multiplier effects on the level of entrepreneurial activity in a region, thus leading to the creation of a culture of entrepreneurship.*

*Venkataraman expanded on his thesis in an interview with Knowledge@SMU.*

**Knowledge@SMU:** In a Tempus-like system where entrepreneurship is lacking both at the individual and systemic level, how can this vicious cycle be broken?

**Venkataraman:** When you move towards a new kind of system, when you introduce new ideas, you are always bound to have other systems in existence which may not be as efficient. There are people who don't understand the new system well who will naturally focus on its weak points. But in such situations we need to believe in the power of the idea and what future it promises.

We can try to break the vicious cycle through some measures I alluded to, for instance, universities. This is not because universities only specialise in education but, that is also where we have invested in young people who are receptive to new ideas, who thrive on new ideas. These are people who want to break from the past. From the study of evolution, we know that kids want to break away from their parents' generation. So if you run that logic, what you need to look for are institutions and sectors where novelty is appreciated, where a break from the past is valued as a virtue, and where temporary setbacks can be made up for because they have time on their side.

**Knowledge@SMU:** What does the future of entrepreneurship look like?

**Venkataraman:** What people will find interesting in the future is that they do not have to be heroic entrepreneurs themselves. They could be investors in a modest way in someone else's idea. They don't have to start a business but they can still write a business plan for a company or for their friend and take a small share of the company. They could provide a temporary service; if they are lawyers and don't want to be entrepreneurs themselves -- but their friends are -- they could provide legal services to them in exchange for a stake in the company. If you have an empty space, you could offer it to start-up companies and, instead of the traditional rent, take an equity-share in return. These are the various ways in which you can participate in the entrepreneurial economy.

People can enable the entrepreneurial economy because cash is scarce for an entrepreneur. Although equity is a very expensive way of financing things, sometimes that is the only way. Such arrangements would benefit both the entrepreneur and also those who are supporting him or her in ways that are mutually beneficial. These kinds of

opportunities will be available in plenty in the entrepreneurial economy and people will be willing to take them up without having to be entrepreneurs themselves.

**Knowledge@SMU:** Many people tend to regard 'technopreneurship' as the sole model for entrepreneurship. What is your view?

**Venkataraman:** Along the spectrum of entrepreneurship, there are other kinds of entrepreneurship that flourish. If you go to Silicon Valley, you will find several 'techno-entrepreneurs' but there are also 'restaurant- entrepreneurs' who create all kinds of new ideas. There are entrepreneurs in the services sector. Alongside technopreneurship, there are all sorts of other services required. There is a need for design-entrepreneurs, advertising companies, lawyers and other entrepreneurs, a whole industry dedicated to solving problems of entrepreneurs. So the notion of technopreneurship will slowly dissolve into just an entrepreneurial economy. An economy in services, to help all kinds of entrepreneurs and entrepreneurial organisations, will emerge.

**Knowledge@SMU:** Do you foresee people playing a proactive role in making this happen and how?

**Venkataraman:** It is often the early institutions which suggest that the evolution will take a long time because they are the pioneers. They don't fully appreciate the system and also have to face many unexpected problems. But those who follow learn from the experiences of the pioneers. So I would expect the followers to implement the changes required for the evolution faster and more actively than the pioneers.

Education definitely can have a strong impact. Another way could be changing the way capital is raised. Money should increasingly come from the 'family-friends-strangers' network. We need role models who enable entrepreneurs by thinking about entrepreneurship in a fundamentally different way than we have in the past. They could provide entrepreneurship related services and incubation to start with. Eventually, when the market realises the utility of these services, it will take on the role of provider, thus creating an entrepreneurial economy. What we can also do is create informal forums to bring people together to talk about ideas and to create the excitement. These are some steps that would accelerate the evolution from a Tempus-like system to a Hora-like system of entrepreneurship.

**Knowledge@SMU:** Looking at Singapore, will its relatively small size act as a constraint towards the creation of an entrepreneurial economy in the future?

**Venkataraman:** Singapore has to find a way of breaking out of its physical limitations. One way of doing that would be to move into knowledge-based industries since their growth is not limited by the size of the country. Another thing I would like to point out here is that, while Singapore may be small, nothing prevents it from having alliances. Geography and nationhood are mindsets. Those are limitations we have put upon ourselves. International alliances can help Singapore expand to other regions and thus expedite the development of an entrepreneurial economy. ASEAN is one step and it can go beyond that.

**Knowledge@SMU:** Some experts believe that good ideas are a dime a dozen. How critical are ideas in the entrepreneurial process?

I have been teaching entrepreneurship for a long time and I know of no idea that has remained pure from inception to execution. Ideas always adapt, they evolve, and they change. The good ideas are those that use feedback from the market and shape the market in a way that it grows. So, I think more important than having an idea is to grow and adapt an idea to the market and the market to the idea. Anybody can have an idea, but it is changing and massaging an idea for it to have the required impact that is important. This is what we must teach in our entrepreneurship courses.

**Knowledge@SMU:** In this evolutionary process from a Tempus-like system to a Hora-like system, what is the role of chaos?

**Venkataraman:** That is a good question. I haven't thought too deeply about that. What I would like to say is that if you leave things untended and if no proper incentives are in place, the second law of thermodynamics will rear its head and chaos will ensue. It means that there are natural forces that move towards chaos. But it is important from a leadership point of view to take advantage of the chaos and break out of it by moving from a Tempus-like system to a Hora-like system through specialisation in various entrepreneurial functions. Specialisation is an excellent way of taking advantage of chaos by organising knowledge to produce something even better. Thus by breaking out of chaos, a new systematic form of entrepreneurship will emerge where subassemblies or specialised units will perform different functions to enable any one aspiring to be an entrepreneur to bring ideas to market.

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