Creativity, Risk, and Uncertainty Towards a Unifying Theoretical Framework for Entrepreneurial Strategy

Jarrod Humphrey, University of Florida, USA

In the popular game show Family Feud, contestants compete for cash and prizes by guessing the most popular answers to survey questions posed to 100 people. In a recent episode, contestants guessed the most popular answers to the question “Name a dish or ingredient you might find on the menu at an expensive restaurant.” Naturally, the most popular answers from the survey respondents were caviar, lobster, and truffles.

If instead of the typically lighthearted questions used on the show, contestants had to guess the most popular answers to the survey question “What does it mean to be an entrepreneur?”, what would the participants guess? Small business owner? High-tech founder? Risk-taker? Anyone with a side gig?

After all, what does it even mean for someone to be considered entrepreneurial? It would be no surprise if people disagree about the answers; scholars have spent decades debating this topic with no end in sight.

To some, entrepreneurs are risk-taking innovators, like Elon Musk, who is trying to colonize Mars, unlock energy abundance on Earth, solve traffic congestion, and turn Twitter into the internet’s “digital town square.” To others, entrepreneurs are the mom-and-pop owners of their favorite local bakery or the 15-year-old kid down the street that mows lawns on Saturday mornings to earn extra cash. To me, entrepreneurship is all of the above.

However, it isn’t exactly clear what differentiates entrepreneurial behaviors from other activities. Does it always require, risk-taking, innovation, or founding a brand new company? One could easily point to franchising as a popular form of entrepreneurship that is both light on innovation and heavy on risk reduction. Yet, few would disagree that former McDonald’s fry cook Sue Martin, that went on to open three McDonald’s restaurants, is entrepreneurial.

While pinning down what makes something or someone entrepreneurial may seem like an inconsequential debate for those in the ivory tower, we argue that for those intending to start up it is a topic worth exploring. Why? Because if it isn’t clear what distinguishes entrepreneurial activities from one another, or even from ordinary day-to-day management, how are founders supposed to know which decision-making tools, strategies, and approaches are appropriate for them?

Within the diversity of entrepreneurial activity is a multitude of differing contexts (e.g., franchising, high-growth, hybrid, family business, etc.) each of which is associated with a set of optimal strategies. Strategies that may not fit neatly into the other contexts. Therefore, accurate recognition of where you fit in the entrepreneurial landscape has major practical implications. When starting up, it is vital that you know where you and your company fit into the universe of entrepreneurial activity so you know which entrepreneurial strategies to pursue and which founder’s behaviors to emulate.

The last thing you want to do when getting your company off the ground is to choose the wrong entrepreneurial strategy. Trust me, it is hard enough building a business when you have the right
strategy. For founders, the tools you learned in your entrepreneurship courses, and the advice you just read in your favorite business publication, might not have you or your venture in mind. The entrepreneurial strategy you choose for your business needs to be in alignment with the type of entrepreneurial activity you are pursuing.

So what distinguishes one type of entrepreneurship from another? In my research, we argue that what differentiates the various types of entrepreneurial activity from each other is how creative and uncertain the context is. Consider the following example about integrating business planning into your entrepreneurial strategy:

If you aspire to be a disruptive innovator, like Elon Musk starting SpaceX, by definition you will be making highly creative and uncertain decisions. It will be impossible to predict how the market will react to your innovations. Conversely, if you’re an aspiring McDonald’s franchisee, like Sue Martin, you will make tons of predictable decisions every day. In fact, creativity and uncertainty are so low that launching a new McDonald’s store strongly resembles day-to-day management. These two entrepreneurial contexts couldn’t be more different.

In uncertain contexts like Elon’s, you probably shouldn’t bother with extensive business planning because predicting the future is impossible. Stick to uncertainty reduction approaches like trial-and-error, A/B testing, and experimentation. In predictable contexts like Sue’s, business planning is not only possible but a requirement for sustaining profitability. In this context, experimentation strategies are less useful.

The meaning of entrepreneurship is debatable. What isn’t up for debate is that founders need a strategy that matches the context of their decision-making. Before investing your precious resources, make sure you know where you fit in the universe of entrepreneurship. Use the creativity and uncertainty of the decision-making context to help figure it out. In doing so, you can more easily overcome one of the grand challenges of entrepreneurship; choosing the right strategy for the problem at hand.

CONTACT: Jarrod Humphrey; jarrod.humphrey@warrington.ufl.edu; (T): +1 954-817-1976; University of Florida; Bryan Hall 100, PO Box 117150, Gainesville, FL 32611-7150 USA.