

## Entrepreneur

## Institute Buzz

By Dr. Eric Morse, Executive Director,  
Institute for Entrepreneurship



As we begin a new academic year, I've noticed the phrase "I'm an Ivey Entrepreneur" becoming increasingly familiar throughout the Ivey community and beyond.

I believe this reflects the spirit of entrepreneurship and captures the overall values of our Institute: to promote the Ivey brand, to produce increasingly wider knowledge of the field of entrepreneurship and, most importantly, to see Ivey students graduating with the confidence, skills and ability to attain their personal and economic goals.

This year, we have made major strides towards achieving our vision. We were very proud to award the new Certificate in Entrepreneurship to 43 graduating students from the class of 2005. Many of these graduates have already launched their own successful ventures and we will keep you updated on their progress as they continue to pursue their dreams.

This year also saw the first Integrative Program Events for both the HBA and MBA programs. These intense two and three day competitive events saw Ivey students put their first-year learning to the test as they worked with entrepreneurs of high-growth companies and functional experts to produce creative solutions to real-life, current business dilemmas.

The title of "Ivey Entrepreneur" extends beyond the HBA and MBA programs: the second annual Quantum Shift program took place this spring at Ivey's Spencer Hall. This rigorous executive development program is already the benchmark for the entrepreneurial community in Canada and has helped to position Ivey as the place for entrepreneurial education.

In this issue of Ivey Entrepreneur, Claus Rerup provides food for thought in his discussion of the role of past experience in success or failure of business ventures and Ian McMillan, from Wharton University has provided a commentary. I hope you enjoy these articles and this issue of Ivey Entrepreneur.

# Been there. Done that.

## Past experience as an entrepreneur is no guarantee of future success

**S**telios Haji-Ioannou founded his first company, Stelmar Shipping, at the ripe old age of 25. His biggest success story to date, easyJet, changed the face of aviation in Europe in a handful of years. Now only 38, he has established more than 15 ventures, including an oil tanker business that sold in 2005 for \$1.3 billion. Today, Stelios (he prefers to be called by his first name) sees himself as the manager of a brand, which has been extended into industries such as travel, leisure, telecom and personal finance.

It's natural to assume that Stelios' success is due to his experience as an entrepreneur. After all, we've all been told that experience is a good teacher. But Claus Rerup, an Ivey professor who is an expert on organizational learning, believes benefiting from experience may be more complex than we assume. "The more I read and understood about experience," says Rerup, "the more I realized that things were not that simple." He noticed, for example, that

some habitual entrepreneurs – those who start several businesses and often operate two or more at the same time – were able to replicate their initial successes fairly consistently in a variety of ventures, while others clearly couldn't.

So how do habitual entrepreneurs (HEs) use past entrepreneurial experiences to positively affect future ventures? That's the question Rerup addressed in a recent article designed to question received wisdom, explore new concepts and stimulate further research. His conclusions contain some food for thought for entrepreneurs looking to benefit from their past experience.

Previous researchers have generally assumed that habitual entrepreneurs like Stelios are successful simply because they draw on their experience. Yet empirical evidence doesn't bear this idea out, showing no definitive positive relationship between HE's previous start-up experience and the performance of their businesses.

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Some research even suggests that when HEs take on new ventures that are unrelated to prior businesses, they are more likely to be successful than when the new venture is in a related industry.

To illustrate the pitfalls of experience, Rerup considered the potential negative and positive impacts of different types of experience on the two core activities of entrepreneurship – opportunity discovery and opportunity exploitation. For example, he notes that prior success in a business might help by encouraging the habitual entrepreneur to continue good practices. On the other hand, it might lead her to over-simplify the challenges of the new business, get into “cognitive and behavioral ruts,” and become over-confident. Similarly, experience in the same industry might give the HE useful knowledge about how to operate the new business, but might also encourage him to use routines and business models that don’t apply in a different situation.

Rerup finds the concept of *mindfulness* useful in separating experience that benefits and harms a new venture. The concept was developed by psychologist Ellen Langer to explain aspects of individual behavior. In its simplest terms, mindfulness is about *paying attention*. “It’s very much about the *quality* of attention,” Rerup notes. “And it’s also about what you do with what you attend to. Mindfulness is not just about cognition – it’s also about action.” When people apply experience with mindfulness, they differentiate experience, adapt it to new contexts and use it creatively. Mindless behavior, in contrast, is marked by blind, rigid application of experience. It has been described as “being on automatic pilot.”

The concept of mindfulness has been applied to organizations, especially so-called High Reliability Organizations – nuclear and chemical plants, and other organizations that can’t afford errors because they operate high-risk technologies. Researchers have identified five sub-processes that operationalize mindfulness in these organizations: pre-occupation with failure, reluctance to simplify interpretations, sensitivity to operations, commitment to resilience, and under-specification of structure.

At first glance, mindfulness appears to be the answer to using experience beneficially. It seems logical that the more mindful an entrepreneur is, the more likely he is to succeed. But once again, Rerup argues it isn’t that simple.

“You don’t get mindfulness for free, and it often falls apart because it’s very, very difficult to be mindful all the time.” Mindfulness often requires an investment of time and people, and an ongoing effort to sustain and rebuild.

When he compares the five sub-processes of mindfulness in High Reliability Organizations to the activities of entrepreneurship, he again gets mixed results. For example, “pre-occupation with failure” might help entrepreneurs by making them more realistic and cautious. On the other hand, it could serve to undermine optimism and action. Similarly, “sensitivity to operations” can help entrepreneurs anticipate problems early on, but can also lead to information overload and scattered focus.

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Rerup suggests a new model, one that recognizes both the benefits and pitfalls of using experience in mindful or mindless ways. When a business venture and its context are complex, dynamic, ambiguous and unpredictable, he suggests, the benefits of mindfulness may outweigh its costs. In less complex, more static situations, mindfulness is not as important, and the economics of mindlessness are more appropriate. Sometimes using past experience mindlessly – a sort of ‘just do it’ approach — can produce good results.

Stelios Haji-Iaonnou is a case in point. “Stelios is quite mindful about how his prior experience can both help and hurt his new ventures,” Rerup says. “He seems to have found ways to balance the costs and benefits of each type of prior experience.” For example, he uses his status and brand to build relationships and identify new markets, but he also adapts past lessons to each new business. By treating every business as distinct, he avoids the trap of taking too much for granted. Yet he also uses his prior industry experience to get new ventures up and running. The differences between some ventures keep him thoughtful and prevent him from blindly replicating the past, yet his experience as a maverick drives innovation in a variety of

industries. He is careful not to over-extend his brand and turns down more ideas than he sponsors.

Do other habitual entrepreneurs demonstrate a similar combination of mindful and mindless application of experience? Rerup says the way to answer this question is to follow several HEs over a period of time, to see when they succeed and when they fail, and how they use their experience mindfully or mindlessly in each situation. In such a study, it would be important to have a stratified sample of businesses, including some very simple ones, like restaurants and construction companies, and some more complex examples, like airlines and telecommunications businesses. “As educators and advisors to entrepreneurs, we need to understand if knowledge gained about mindfulness in high reliability organizations can be applied to entrepreneurship,” says Rerup. “If we can help even 10 to 15% of habitual entrepreneurs be more successful the second or third time around, we could have a huge impact on the economy.”

In the meantime, he says entrepreneurs may be able to help themselves by thinking about the ideas he raises and asking how they apply to their ventures. If they are operating complex businesses in dynamic industries, taking the time and trouble to be mindful about past experience may pay dividends. On the other hand, in more complex environments, it may sometime make sense to apply past experience mindlessly, simply repeating behaviors that resulted in success in the past. “Generating research takes years and years,” he points out. “Until then, these ideas may provide some useful tools — a way of thinking that will help entrepreneurs in the operational phase of their venture. Why not at least be *mindful* that being mindful can have both advantages and disadvantages?”



Claus Rerup is an assistant professor of organizational behavior at the Richard Ivey School of Business.

His research has won several awards such as the Academy of Management Organization and Management Theory Division Best Paper Award (2002), and is currently in the process of being published.

# commentary

By Professor Ian C. MacMillan, Fred R. Sullivan Professor and Director of the Sol C. Snider Entrepreneurial Research Centre at the Wharton School

## We asked Professor MacMillan, an international expert in new venture management and entrepreneurship, to respond to Professor Rerup's ideas. Here's what he had to say.

Professor Rerup's starting point — that experience can have both positive and negative effects on opportunity discovery and exploitation — is clearly valid. I have in mind one habitual entrepreneur who has been involved in several companies in the tire business. His whole mindset is built around the tire business, and all his other ventures are based on that experience. Obviously if you get into a completely different kind of industry but try to apply tire business concepts, you'll make a lot of silly mistakes. The further you move away from your knitting, the more likely that running down the rut of experience will be harmful. I'm not sure, however, that this concept is as relevant to opportunity discovery as it is to opportunity exploitation.

Professor Rerup has done a wonderful job of articulating what mindfulness really means, and when it's harmful or

beneficial. In my own work, I've noted that when entrepreneurs go into an innovative venture, they must be aware of the sources of uncertainty on two dimensions — the capability uncertainty, which is 'can I do it?', and the market uncertainty, which is 'does anybody want it?' I've developed a framework for thinking about your challenges depending on whether you have high, medium or low uncertainty in these two dimensions. If you have a new venture that is very close to your current capability and markets, you may not need to be mindful. It's when you go out into more uncertain ventures that the need for mindfulness increases. When you get into very high uncertainties on both dimensions, mindfulness is critical.

Here's a classic example. I've got a McDonald's franchise in New York City. If I open another franchise in Brooklyn, I

can simply get on with it, using all the routines that I have developed previously. But if I'm going to open a McDonald's in Mumbai, I'd better be aware that the environment is quite different, and it's not a good idea to sell beef patties there. Mindlessly replicating routines in that case will be disastrous.

For entrepreneurs, the simple observation that there are times when you really need to be more mindful is crucial. When you're an entrepreneur with several successful ventures, there's a tendency to go into the next couple of ventures without the careful consideration you undertook in the first place. I think it would benefit the habitual entrepreneur to think about Professor Rerup's ideas, and ensure that he or she has been appropriately mindful.

What I like about Professor Rerup's work is that it's relevant and useful in the entrepreneurial environment. Professor Rerup has also done a very good job of articulating boundary conditions. No theory works under all conditions, and he has clearly articulate when mindfulness is relevant and when mindlessness is relevant. The next step, I believe, is to break down the dichotomous concept of mindfulness, and look at the circumstances under which different degrees of mindfulness are important.

I think Professor Rerup is heading down a very useful path with this research, and I encourage him and others to start looking at how to pursue low-probability, high-impact opportunities using the concept of mindfulness.

## AlumniSpotlight

### ENTREPRENEURIAL IVEY ALUMNI... IN THE NEWS

**Christine Magee** (HBA 1982, Ivey Advisory Board member) and **Stephen Gunn** (MBA 1981), co-founders of Sleep Country Canada, were recently inducted to the Canadian Retail Hall of Fame.

Widely recognized as one of Canada's leading women entrepreneurs, most of us are familiar with Christine as the public face of Sleep Country Canada and the catchy jingle "Why buy a mattress anywhere else?" Christine and Stephen are also small investors in Listen-Up Canada, which recently launched an

aggressive marketing campaign similar to that of Sleep Country. With audiologist M.J. DeSousa starring in the commercials, the jingle "Turn up the volume on life" is becoming increasingly familiar.

This year, Sleep Country was ranked as one of "50 Best Employers in Canada" and inducted into the Marketing Hall of Fame.

The following Ivey alumni were recently honoured as Canada's Top 40 Under 40:

**Tim Fowler** (MBA 1995), Vice-President, Business Development, Pepsi-QTG Canada

**Pamela Griffith-Jones** (HBA 1987, MBA 1990), Vice-President, Leisure Products, Canadian Tire Corporation Limited

**David S. Ogden** (HBA 1989), President and CEO, ProjetCorp Realty Inc.

**Joseph Quarin** (MBA 1995), Chief Financial Officer, BFI Canada Income Fund

Congratulations to all our alumni!

## Business Law Clinic

In the past year the Faculty of Law at the University of Western Ontario has opened a Business Law Clinic that provides start-up and early-stage businesses with student legal assistance. The Western Business Law Clinic (WBLC) is overseen by practicing lawyers. Its students are educated, trained and inspired to be advocates of entrepreneurs. They assist small or start-up businesses with high quality transaction matters including: Business Structure, Finance, Intellectual Property Protection, Product Liability, Employment Law, Government Regulations, Contracts, Taxation, Guarantees and Personal Liability and Environmental Issues.

By connecting aspiring entrepreneurs with law students, the WBLC works to motivate small businesses by providing them with high quality economic development strategies.

To find out more about the WBLC and its services you can refer to: <http://www.law.uwo.ca/info-centres-progs/BusinessClinicAbout.html> or contact the Clinic at 519-850-2966 or at [businesslaw@uwo.ca](mailto:businesslaw@uwo.ca).



cutline:

## International Entrepreneurship Competition

A team of first year MBA students recently flew to Singapore to achieve first place in the National University of Singapore's first global business challenge, the International Entrepreneurship Competition.

The International Entrepreneurship Competition challenges competing teams with the task of providing a business plan involving a Singapore-based company which intends to expand overseas, specifically into the participating team's home country. Members of the competing team are expected to assume management positions in the subsidiary company and present a business plan for establishing and sustaining profitable operations to the judges, who assume the roles of investors and management.

Under the team name "Ivey Gurus", MBA students Ashwatraj Yennagudde, Smita Yadav, Saurav Singhal and Manojkumar Karia presented a business plan for "Dragon Care" a hypothetical Singaporean company specializing in traditional chinese medicine, for expansion into Canada.

A total of 323 Teams from 61 Business Schools representing 18 Countries competed in the competition. 20 teams were selected for the second round and a final 8 were chosen to travel to Singapore. 5 teams were chosen as finalists and challenged to present to a distinguished panel of judges representing top names in business and academia. The Ivey team received their first place trophy, certificate and prize money from the Finance and Foreign Affairs Minister of Singapore.

Congratulations, Ivey Gurus!

*The Ivey Entrepreneur newsletter is made possible by a grant from the HBA Class of 1970.*

This quarterly newsletter is published for individuals in business and academic life who have a particular interest in entrepreneurship. If you have any comments or questions please contact us. If you or your organization would like to obtain a copy of this newsletter, free-of-charge, please contact: **The Institute for Entrepreneurship**

Richard Ivey School of Business, The University of Western Ontario, 1151 Richmond Street North, London, Ontario, Canada N6A 3K7 P: 1-877-333-4344 F: 1-519-850-2337

E: [entreinste@ivey.uwo.ca](mailto:entreinste@ivey.uwo.ca) W: [www.ivey.uwo.ca/entrepreneurship](http://www.ivey.uwo.ca/entrepreneurship)