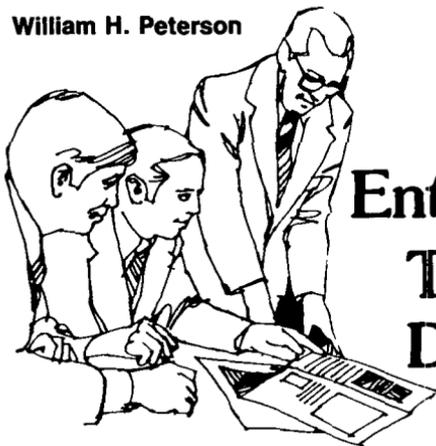


William H. Peterson



Entrepreneurship, The Possible Dream

ENTREPRENEURSHIP, the possible dream.

The dream may not always be big but it is possible, even probable given the right conditioning, given the right commitment. For in a free society the spirit of enterprise, the spirit of dynamic boldness, of business ingenuity, appears to be rather universal, across the board—part and parcel of human nature.

Thus in one way or another the spirit of enterprise crops up in every occupation, every craft, every profession, every walk of life, from a plumber figuring out a new way to fit a pipe bend, to a factory manager recasting a production layout flow, to a university student enhancing

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his human capital by hitting on a new and better study technique, to a Washington hostess coming up with an innovative dinner table seating arrangement, to a novelist working out a fresh plot construction and—to cite perhaps a bigger dream—to a Vietnamese “boat person” establishing a restaurant in Los Angeles.

All these individuals must shape and reshape their plans to fit changing conditions and invest in a demanding if not capricious situation in an uncertain future. All of them reflect entrepreneurial behavior—the entrepreneurial spirit in action.

Perhaps without knowing it, they are enterprisers all, at least in degree. Shakespeare sensed this entrepreneurial spirit when he had Hamlet observe: “Every man hath business and desire, such as it is.” So did Adam Smith sense the spirit of

enterprise when he declared in *The Wealth of Nations* (1776): “In all countries where there is tolerable security, every man of common understanding will endeavor to employ whatever stock he can command, in procuring either present enjoyment or future profit.” Colonel Harland Sanders, founder of Kentucky Fried Chicken, expressed his own streak of entrepreneurship this way: “I was 66 years old. I still had to make a living. I looked at my Social Security check of \$105 and decided to franchise my chicken recipe. Folks had always liked my chicken.”

Thus the aspiring enterpriser or entrepreneurial manager might ask himself:

Are you ready to be an entrepreneur, to be an entrepreneurial manager (sometimes called an “intrapreneur”), to be a success? If so, what have you done to merit it? Have you developed a marketable specialization? Have you developed something fresh and unique that would be of interest at your workplace or to your customer, real or potential? Are you fully applying and capitalizing on it? And, just what have you done to promote your ideas?

The message here, then, is: The spirit of enterprise seems latent if frequently dormant in human nature. It is a national as well as an individual resource. It can be nurtured and developed. Above all, it can be self-applied.

The Entrepreneurial Choice

Yet enterprise is not a free good. It has a price. It is implied in the economist’s concept of opportunity cost, the idea that whatever man seeks he must sacrifice something to obtain it, that he must give in order to get, deny himself the yield from the investment of time, effort or capital in options denied, that he must engage in the calculus of costs and benefits arising from different choices, that, indeed, he may miscalculate—incur losses, lose his capital and become a business mortality statistic. Yet, correct choices can be creative, innovative, beneficial to community and entrepreneur alike.

Yes, enterprise, success, the possible dream. So I ask: Inside and outside the world of business, just what is it that ignites the spark of ingenuity, of creativity, that causes the enterprisers, whoever and wherever they are, to try something dramatic, dynamic and bold, that enables them, frequently, to till new ground, see new horizons, break through once-impenetrable barriers?

Now, what of entrepreneurship, the child of enterprise?

What impels entrepreneurs to scout for new market or production possibilities, to come up with something novel, daring, risky, even perilous in terms of losing precious time and accumulated capital? What makes them try to spot and meet the shifting needs and demands of the

ever-fickle, at times cruelly dictatorial and always most sovereign consumer?

Whatever the answer, the breakthroughs start in the mind.

Just how did Thomas Alva Edison come up with the idea of an electric light (apart from literally hundreds of other patented ideas), Willis Carrier with the concept of an air conditioner, Clarence Birdseye with the thought of frozen food, Gail Borden with the invention of condensed milk, Rowland Hussey Macy with the notion of a department store, Wallace Abbott, M.D., with the idea of "dosimetric granules" or measured-medicine pills, Gustavus Swift with a vision of "an ice-box on wheels" to get fresh-dressed beef and pork by refrigerated fast rail to population centers in the East, Ray Kroc with the thought of franchised fast-food restaurants, Stephen Jobs with the concept of a personal computer, Mary Kay Ash with the idea of "beauty consultants" merchandising Mary Kay Cosmetics, Rocky Aoki with the scheme of a chain of Benihana Japanese steak houses and more recently with a line of frozen Oriental packaged food for the home?

Just what is behind the some 600,000 new firms appearing on the American scene every year, in good times and bad (with bad times of course raising the business mortality rate)?

Encouraging New Ideas

In short, how does the entrepreneurial mind work? What makes it tick? What encourages it, discourages it? How can we nurture enterprise, productivity, creativity, foresight—entrepreneurial ideas? What attitudes, values, customs, mores, habits, laws, institutions, traditions, conditions, and the like give rise to this vital social asset? Just what prods the entrepreneur to hazard markets with innovative and frequently untried ideas, to risk failure and the loss of capital, to overcome conscience which, as Shakespeare's Hamlet again observed, "does make cowards of us all"?

These questions are basic to the care and cultivation of entrepreneurship. The questions are also basic to the character of the economy, for the entrepreneur, according to a host of economists including Richard Cantillon, Jean-Baptiste Say, F. Y. Edgeworth, Francis Walker, Joseph Schumpeter, Frank Knight, Ludwig von Mises and Israel Kirzner, is the central figure of economic activity.

Whatever the answers, clearly entrepreneurship is a function of the mind—the conditioned mind, the imaginative mind, the disciplined mind, the entrepreneurial mind.

Consider the entrepreneur as an individual possessed of perception and nerve, of vision and gumption. His is, as a rule, a dual personality:

He is a perceiver *and* a doer. He sees and he acts. He beholds and he grasps, even when the brass ring eludes him, i.e., when he is wrong. Still, he remains the personification of mind over matter, of a dream come true—even if the dream fades away, or even if the dreamer and the doer are occasionally two different individuals, with the doer (perhaps in the personage of a partner or a venture capitalist) the activator of the enterprise, the realizer of the dream. Nonetheless, as we will see, the entrepreneur, sparked by an entrepreneurial spirit, dominated by the consumer, conditioned by his institutional environment, makes things happen; he spurs supply; he enriches mankind; he is an unsung hero.

Thoreau caught the spirit of enterprise when he wrote in *Walden*: “If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them. All men want, not something to do *with*, but something to do, or rather something to *be*.”

Item: Not long ago Seiko, the Japanese watchmaker, developed a wristwatch that calls Moslems to prayer at the right hour five times daily. Thus Seiko gently reminds Moslems to face Mecca, their holy city in Saudi Arabia, and pray, no matter where the Moslems may be.

The time-reminder also comes as a table clock and pocket-watch. The price of these timepieces runs around \$100, and the potential market is estimated at hundreds of millions of people. This is entrepreneurship at work, bringing the Seiko people, their dealers and Moslems together in far-reaching social cooperation, in mutual and peaceful advantage, in an all-around win-win-win situation.

Item: Joseph J. Pinola, C.E.O. of his Los Angeles-based First Interstate Bancorp, long had a vision of a nationwide banking system under one management. The cloud over such a vision was the uniform state banking rule that no bank could operate outside its state borders. But the entrepreneurial concept of Pinola was to hurdle state borders via the holding company or affiliation route, i.e., to have a First Interstate Bank of California, a First Interstate Bank of Arizona, a First Interstate Bank of Nevada, and so on. Today First Interstate services consumers at more than 1,000 banking offices in 14 states with more than \$45 billion in assets. As entrepreneurially-minded Joseph Pinola wrote on February 19, 1985 in First Interstate's 1984 annual report:

There's a saying that gives a sage admonition: “To the blind, all things are sudden.” Hence, in our view, trying to manage in today's environment without any foresight of a framework for change

is pure folly. Our framework is our strategic plan, which has a clear objective: The development of First Interstate into a profitable, *nationwide* supplier of a broad range of financial services. (Italics added.)

Item: Sears, the giant department store and mail order house under the leadership of C.E.O. Edward R. Telling, recently moved four-square into the financial services business. Long in the auto and life insurance business with Allstate, Sears recently launched Discover, a new credit card to compete with Visa and MasterCard. Sears also bought out the Dean Witter Reynolds stock brokerage firm, the big California-based nationwide real estate firm of Coldwell Banker, the Greenwood Trust Company of Delaware and a bank in South Dakota, thereby enabling Sears to set up its own financial empire and giving commercial banks like Citicorp, BankAmerica and First Interstate fears of powerful competition from this so-called "nonbank bank." Sears' move into financial markets to better serve their customers is not without risk. Comments C.E.O. Telling, according to *Time* (August 20, 1984): "Taking chances is a fact of economic life. Business must risk to grow. Fear of what may or may not happen is no excuse for avoiding challenges."

So we begin to see how entrepreneurship and challenge are practically one, how entrepreneurship

serves as a bridge between producers and consumers, with consumers as the bridge-tenders, determining which producers get to cross the bridge and in what strength—i.e., in what share of the market.

We also see how the role of the consumer is, as noted, sovereign—central, crucial, pivotal to the success or failure of entrepreneurship. The entrepreneur has to satisfy King or Queen Consumer, the person ever looking over the entrepreneur's shoulder, ever having the final say. The consumer applauds with profits, punishes with losses, ever commanding: Do better, do better—or else.

The consumer, in other words, is the master, even a virtual dictator over the entrepreneur. The consumer holds the almighty power of the purse. He picks and chooses among competitors. He accepts some and rejects others. He thereby has every entrepreneur by the jugular, occasionally withholding patronage, strangling a woebegone entrepreneur to death. Here is the way that Ludwig von Mises put the entrepreneurial situation in *Human Action*:

The direction of all economic affairs is in the market society a task of the entrepreneurs. Theirs is the control of production. They are at the helm and steer the ship. A superficial observer would believe that they are supreme. But they are not. They are bound to obey unconditionally the captain's orders. The captain is

the consumer. Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him.

So you see that this Captain Consumer—King or Queen Customer—is rough and tough, and that the entrepreneur knows it. Entrepreneurial ideas are fine, they may be realized, i.e., brought into being, if approved over and over again by the sovereign consumer. So quality or value of product or service, given the level of pricing, is ever critical. Consumers demand it, expect it, and when it is missing they take umbrage and may well strike back—do without or switch support to another vendor—thereby imposing losses on the offending entrepreneur.

Quality. Value. Worth. The most for the least. These are the simple parameters of the marketplace. Hence the recent rise of employee quality control circles in stores and offices, mills and factories in Japan, North America and Western Europe and now practically around the world. Perfection becomes the entrepreneurial goal. As father-and-son Management Professors Michael and Timothy Mescon (respectively at Georgia State and the University of

Miami) noted in *SKY Magazine*, September 1984:

Perfection. When was the last time you observed, experienced, or participated in an act of perfection? When was the last time you witnessed a flawless performance, purchased a flawless product, or were treated with flawless service? Can you recollect receiving excellent treatment or accurate delivery in the past week, month, or year? Perfection, flawlessness, excellence, and accuracy are words that don't easily come to mind. Indeed, terms like these are difficult for many of us to vocalize. We have for all too long accepted the mundane, promoted the average and rewarded the mediocre.

But as the Mescons further note, in our global business market peopled by sharp, hungry, enterprising competitors, little but perfection will do the trick. Excellence is not fantasy. Its pursuit is mandatory, competition demands it. Relatedly, productivity improvement becomes make-or-break. Hence perfection becomes more and more the norm. It more and more is rewarded both by the consumer and, increasingly, by the quality-minded, competition-tuned employer-entrepreneur.

Item: A recent IBM ad states in a bold headline: *If Your Failure Rate Is One In A Million, What Do You Tell That One Customer?* The ad continues to explore the simple point that controls all work at IBM: zero-defect performance. Still, concludes the ad, if an IBM product does some-

how need attention, IBM stands ready, willing and able to furnish error-free and precise service. Perfection, even for that isolated customer, is the ideal that must be ever borne in mind, a litany that must be reiterated to employees over and over again. This, say the Mescons, is the way to keep the concept of perfection at work.

Item: Motorola, the global electronics company, has charged all of its 90,000 employees to pursue excellence, to strive for product and service quality perfection. Through its Participative Management Program (PMP) Motorola has forged a system of employee economic education, including individual worker recognition, aimed at two-way communications and work perfection. At Motorola's Mesa, Arizona plant, for example, PMP employees have established a Perfection Award—recognition of achieving a 100 per cent explicit unmistakable standard: perfection. To date more than 3,600 Perfection Awards have been earned by Motorola employees in Mesa.

Indeed, perfection-minded Motorola does not use the word employees or workers: They are, according to Motorola, henceforth to be known as "associates." (Perfection, like entrepreneurship, after all, is partly a matter of self-image and self-image is enhanced by being an associate rather than an employee or worker.)

Writes Henry W. Bried, the firm's PMP director:

Participative Management at Motorola is a system of management which encompasses a two-way exchange between and among management and our associates (being our employees). It is structured to meet the individual and common production objectives of industry. Since 1974, when we first implemented it, this system is the most successful and effective program to improve productivity in industry today.

Participative management and quality circles are variations of entrepreneurship. They tie in with my theme of enterprise, the possible dream. Yet perhaps more than a dream, for, again, entrepreneurship is a relatively unexploited natural resource, embedded in human nature, a vital strand that weaves in and out of every human psyche, or as Ludwig Mises put it in *Human Action*: "In any real and living economy, every actor is always an entrepreneur and a speculator."

Mises reminded us that man must ever cope with Adam's curse, with the inescapable fact of scarcity, with a stomach (or stomachs) to fill, with the need to get a roof over his head and clothes on his back, with his therefore having to ever entrepreneurially garner and commit resources in every action. In a free society, man the entrepreneur and speculator has to have a purpose in mind, shoot at a goal, work with his

fellow man in a finely-tuned network of social cooperation.

Human Action Embodies Entrepreneurship

Entrepreneurship, then, is ever a matter of choice. Faced with countless alternative courses of action, man in and out of entrepreneurship must constantly choose, ever trade off one option for another, opting as a rather strict rule for the most rewarding, obeying the economic "law" of Nobel Laureate George Stigler that \$2 is better than \$1 or, to put it in a less tongue-in-cheek way, more happiness is better than less. In any event, man is always his own bottom line, his own profit center. Profit in this sense is, again, ever psychological and motivational, value-ridden, allowing for altruism and unselfishness, the mental calculus of a unique individual, an independent as well as interdependent being. Profit is the universal spur, then, behind the spirit of enterprise. It is a force for—as conditioned by

ethics, by the absence of fraud and force—the public interest, the social good.

Enterprise is perforce dynamic. It moves with the ebb and flow of life, of history, of technology, high and low. It swings with the tone of politics, with the shape of political institutions. Man, the innate enterpriser, the potential entrepreneur, realizes that conditions change, that the world is in a whirl, that, as Heraclitus noticed, he can never swim in the same river twice, that he lives in an environment of change, of uncertainty as well as scarcity, that any one action may fail its mark, that he is inescapably a speculator. So all human action embodies elements of entrepreneurship and speculation.

We are all, then, entrepreneurs and speculators in one degree or another. Nobody is immune to the opportunities and uncertainties that life unfolds before us. Entrepreneurship is a normal human capacity. It can be cultivated and developed. It is a possible dream. 

The Entrepreneurial Spirit

IDEAS ON



LIBERTY

HOWEVER you measure it, U. S. entrepreneurial activity is growing. Business start-ups, which averaged 1,800 a day in 1950 and 4,000 in 1960, increased to an estimated 12,000 a day in 1983. . . . The vigor of our entrepreneurial spirit is the United States' greatest business treasure.

GIFFORD PINCHOT III, *Intrapreneuring*

To the Editor

As many of you know, we recently conducted a *Freeman* reader survey. One comment we heard repeatedly was “please include letters from readers.” In response to this suggestion, we are starting a new “To the Editor” column. We will share with readers the most interesting and provocative letters we receive regarding *Freeman* articles. Since FEE’s activities encompass more than just publishing *The Freeman*, we will also include, from time to time, reactions to other FEE undertakings. In short, we want this to be the space in which our readers share their opinions. Letters may be edited for purposes of clarity or space. Address your letters:

To the Editor
The Freeman
Foundation for Economic Education
Irvington, New York 10533

A Complaint

To the Editor:

I have a complaint.

I have been sending money every year to FEE for several years so that I could continue to receive *The Freeman*. I don’t want this to change.

My complaint is my loss of sleep and damage to my health caused by each issue of *The Freeman*. When it arrives I sit up to all hours to read it from cover to cover, frequently write letters to compliment authors, and then usually mail my copy to a friend (or enemy). This process occurs every month and it is causing

me to lose sleep, damaging my health, and prevents me from devoting full time to the three novels I’m trying to write.

The problem is that the magazine is too good. The solution is simple. Every other issue print mediocre articles, or even just send out a blank magazine. This won’t completely solve the problem, but at least I’d know that every other month I would receive some relief.

I do trust that you will attend to this request promptly.

ROBERT T. SMITH
Smyrna, Georgia