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Claremont McKenna College Opening Convocation 2007

## **Being Entrepreneurial at CMC**

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## Being Entrepreneurial at CMC

I want to talk to you today about two topics and how they are related: entrepreneurship and the CMC experience.

Joseph Schumpeter, an Austrian economist who is largely responsible for integrating the concept of entrepreneurship into our understanding of markets, in an article, that appeared in the *Economic Journal* in the 1930s, wrote: “Entrepreneurship is a feat not of intellect but of will...It is a special case of the social phenomenon of leadership...Its difficulty consists of the uncertainties of doing what has not been done before. While differences in aptitude for routine work result in differences in success in doing what everyone does, differences in this particular aptitude result in only some people being able to do this particular thing at all. To overcome these difficulties is the ...characteristic of the entrepreneur.”

You may have by now conjured up your own image of an entrepreneur—perhaps it is someone like: Facebook founder, Marc Zuckerberg, Oprah Winfrey, Steve Jobs, David Neeleman of Jet Blue). These are all people who started their own businesses.

But these images are too limiting, not consistent with modern views of entrepreneurship, and they give rise to a number of common misperceptions:

### **1) The first misconception is that entrepreneurship only takes place in a business context**

This is false. The same type of behavior and activities that arise in a business setting also arise in the public sector, colleges and universities, and other not-for-profit organizations.

For example, there is considerable interest in the notion of “social entrepreneurship” and “social ventures.” The triggers for these ventures may be different than for a private venture (the goal here is to correct or ameliorate a perceived market failure/social problem), but what is clear is that the same type of attributes that make a successful business entrepreneur will also make a successful social entrepreneur.

- A great example of this is work done at Bill & Melinda Gates Foundation—they are systematic in their approach in terms of designing a philanthropic strategy, choosing how to distribute the money consistent with the strategy, and applying the same type of cost-benefit analysis that one would expect in a corporate finance setting. In other words, they spot opportunities with highest NPV, hoping to have maximum impact, and carefully evaluate and make adjustments to strategy when warranted.

There are other interesting examples of social venturing right here at CMC.

- One our alums, Marc Brody ('83), has created the US-China Environmental Fund—he recognized that one of the negative consequences of China's rapid industrial development has been increased pollution and degradation of natural resources. (To give you some perspective--Columbia and Yale jointly publish an overall environmental performance index for around 100 countries—New Zealand ranks first, US ranks 28<sup>th</sup>, Mexico ranks 66<sup>th</sup>, and China is 94<sup>th</sup>. So to deal with this concern, Marc Brody formed a foundation devoted to the stewardship of China's natural and cultural resources.
- Andy Horowitz, parent of recently graduated CMC student, saw an opportunity for increasing the success of social ventures by providing training programs for fledgling social entrepreneurs. Last year he hired several CMC students to work on these projects at the Social Enterprise Institute, which is something you could be involved in as well.
- In another context, you might think of academics as residing in an “ivory tower” and removed from reality (which would not be surprising given what we are wearing), but this is wrong. Academic research, in which all our faculty are engaged, in effect, is an entrepreneurial venture—the objective of research is to identify unanswered and relevant questions and provide original ideas and insights. As we all know, research is somewhat speculative—we may have hypotheses about the results, but there is always some risk associated with not finding what is expected (“negative results”). And, like other ventures, it is important to know when to abandon and when to continue a particular line of research.
- Another way entrepreneurship is apparent is in CMC's curriculum; one of the things that attracted me to CMC is the ability to create new courses—not courses that are straight out of the textbook and that you expect to find at every college. There are many examples of innovative courses created by our own faculty, that are in high demand at CMC—The fall 07 catalog offerings include, just to name a few, Ward Elliot's *Politics and Population*; Jack Pitney's *American Presidency*; Nick Warner's *Ethics of Scientific Leadership*; Jim Morrison's *Film and Literature*; and Audrey Bilger's *Women and Comedy*.

So research and teaching can be entrepreneurial and so can philanthropy—it is not just about business.

## 2) **The second misconception is that entrepreneurship is about creating new ventures**

This also is false.

In fact, the mark of an excellent organization or institution (be it a 200 year old business, labor union, or hospital) is one that creates incentives for innovation and has mechanisms

for evaluating new ideas, and implementing them, and even making obsolete their own most successful products/services.

If organizations don't do this, they will fail. In effect any institution has to organize itself for what Peter Drucker calls "systematic innovation"--that is to "create the different tomorrow that makes obsolete...and replaces even the most successful products of today."

**3. The third misconception is that entrepreneurship is all about making money/creating a personal fortune**

Certainly that is true for some, but research shows that there are a number of reasons why individuals choose to become entrepreneurs. Prominent among those are: wanting more autonomy; liking the challenge of creating new things; being passionate about something.

**4. The fourth misconception is that entrepreneurs are "risk lovers," or what an intermediate microeconomics textbook would describe as "risk preferring" individuals**

Suppose Howie Mandel (*Deal or No Deal*) offered you a choice between \$1M with certainty or a 50-50 chance of \$2M or \$0, so the expected value of the choice is the same. If you were a risk preferer, you would take the gamble.

However, survey research and experimental research shows that entrepreneurs are not risk preferring; they do, of course, take calculated risks provided the *expected* returns are high enough; they also try to manage those risks (with things like staging of ventures, and other hedging devices). So entrepreneurs may have a higher than average tolerance for risk, but that is not the same thing as being risk loving.

So you don't need to be risk loving to be an entrepreneur.

**5. The final misconception is that entrepreneurship cannot be learned**

Research in organizational behavior, however, indicates that entrepreneurial skills, abilities, and perceptions are dynamic, so they can and do change over time and, here is the important part, they can change through experience and learning.

Of course, some people (many of you here) display some key traits like creativity, need for achievement, risk bearing attributes, but the point is that entrepreneurial skills can be enhanced.

**And this is where the CMC Experience comes in--**

The history of our school is replete with examples of extraordinary entrepreneurs who took advantage of the learning experience at CMC:

Robert Day ('65) as an undergrad was passionate about an idea of creating an investment management company. He wrote a business plan for such a company for his senior thesis. He did not get an A, by the way, or a B. After a few years in I-banking, he founded Trust Company of the West—TCW (the largest privately held trust company in the US)

Augie Nieto ('80)—father of Austin ('08) founded LifeFitness and created the Lifecycle and, more recently, is leading a philanthropic effort to find a cure for ALS.

Tom Neff ('76) was a science and management major at CMC and subsequently founded and became CEO of Fibrogen, a major privately held biotech firm.

There are many other success stories of individuals working in other areas including within established corporations, “not-for-profits”, and so on. I believe these individuals, regardless of whether they created a new venture or rose to the top in an established institution, will tell you that they have risen to the top primarily through being entrepreneurial —anticipating needs, spotting opportunities, implementing ideas, and generally finding ways to add value.

There are also a number of recent graduates who also have some inspiring stories:

*Fantasy Congress* founders, Arjun Lall ('07), Andrew Lee ('07), Ian Hafkenschiel, ('08), Ethan Andyshak ('06). This is a great story because these students have very different backgrounds and majors (PPE, economics, computer science) and may not have even run into each other in a large university. But here they developed their common interests into a really unique and interesting venture ([www.fantasycongress.com](http://www.fantasycongress.com)).

My first year at CMC, in 1996, I met John Whitley ('01), who as a freshman, was focused on starting his own clothing brand. He interned at Abercrombie after his first year, and even before graduation, was pitching (and selling) his line to Barneys and Fred Segal and others. He and friends from Pomona College and University of Colorado launched the Trovota ([www.trovota.com](http://www.trovota.com)) brand. They won a bunch of prestigious design awards straight away, and the brand continues to get a lot of attention, including being featured on *The OC*.

Jeff Horowitz ('03) began taking Chinese at the Colleges, and while studying abroad in Shanghai during his junior year, developed a web-based business ([www.dressmonkey.com](http://www.dressmonkey.com)), which sells custom-made (in China) sports jackets for young professionals/students.

And, as a last example, you will hear a lot about freshman Ben Casnocha ('11), who started his first business at 14, and has published a book, *My Start Up Life*. At 19, he already is a serial entrepreneur.

## **So what is the special connection between CMC and entrepreneurship?**

My hypothesis is that the environment is very much conducive to innovation/change, while maintaining a commitment to the liberal arts. There are many reasons for this: small size; supportive alumni; an open administration that creates incentives to innovate; an admissions office that does an excellent job screening for students with interests in and characteristics conducive to entrepreneurship; and an ambitious and supportive faculty and staff.

So all of this leads to the natural question of how can you best take advantage of this environment? Are there things you can do to create new opportunities and benefit from them?

The first step is recognizing that innovation is a skill that can be learned and practiced, like playing the piano or playing golf.

At CMC it is possible to try out your ideas in a supportive environment; you can create a new organization or improve upon an existing one; you can work with other students on prospective ventures; you can enter business plan competitions; talk to your professors about your ideas; and participate in leadership internships.

You might think that discovery of new ideas is random and unpredictable. But while there is an aspect of serendipity in innovation, by and large, the history of ideas and entrepreneurship tells us that discoveries and innovation come from scouring the landscape and asking some pretty basic questions:

What is it that we don't know that might matter?

What is it that we don't have that might matter?

One practical approach to answering these questions is to extrapolate from demographic changes. Demographic changes include shifts in wealth, urbanization, globalization, cultural and labor force changes. And understanding the implications of these factors provides opportunities for innovation. To recognize such things, to recognize shifts in priorities, to anticipate needs and buying habits, etc. means that you need a firm grasp of history, psychology, political economy, statistics--the types of skills and insights you are likely to gain with a CMC liberal arts education.

### **To close--**

Entrepreneurship does require some tolerance for uncertainty; it requires leadership; and it is not just about business. Entrepreneurship and innovation occur in all types of organizations—new and old—and must occur if those organizations expect to thrive.

It also is an activity that can be practiced and I encourage you to take advantage of your opportunity—don't leave CMC without trying something entrepreneurial.

You shouldn't be afraid of trying something new.

“Remember, Amateurs built the Ark... Professionals built the Titanic.”

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