

URL: <https://ecorner.stanford.edu/clips/what-good-entrepreneurs-think-about/>

Kathleen Eisenhardt, Stanford W. Ascherman M.D. Professor in Stanford Engineering, observes three characteristics that differentiate entrepreneurs who think strategically: they see the entire playing field, they're willing to shape it, and they understand what game they're playing. Eisenhardt gives two examples from her research that demonstrate how founders who see the big picture are more likely to succeed.



Transcript

- So thinking.. 00:00:03,990 First of all, what is thinking about? There are really three things that I've seen over various studies and consulting gigs and so on that differentiate how people think well and poorly.. But first of all is best entrepreneurs tend to see the entire playing field.. So they're like point guards in basketball, they're like midfielders in soccer, they're seeing the whole field.. The second thing is they typically don't take the playing field as given.. It's something, in fact, they can shape, they can make it bigger or smaller, they may get a rectangle or a triangle.. And then, finally, they understand what game they're playing, in other words, they understand the underlying economics of the business.. So let me give you a couple examples of that.. This was a study that we did, Rory McDonald and I did in Fintech.. And this was a set of companies we looked at, and were trying to do something, it was called social investing..

And it wasn't really about social mission, it was more about the idea that there are amateur investors who are great and that other amateur investors could follow them and also be financially successful too.. So that's how it started out.. And what the better firms were able to do is they realized the whole spectrum of who they were actually playing with, who the customers were, who the suppliers were, but most importantly, who the substitutes were.. And in particular, the substitutes were the big banks like the Morgan Stanleys and USBs and so on.. So it was the big banks.. So the better firms understood that in fact, their rivalry was with those substitutes and it wasn't with other startups.. Other startups didn't matter, because they were small and trivial.. Instead, what they were trying to do was disrupt substitute incumbents.. So they really saw the big picture and they particularly saw the incumbents.. The second idea is the idea of that they also shaped the playing field..

This was a study that I did a while back, it was on what we called the internet stars, and if I told you who these companies were, you would know every one of them.. But we were studying them back when they were still kind of nobodies.. And this was five firms that had gone on to be great.. And what we saw that they differentiated themselves from the other firms that were starting at the same time, was that they were changing the playing field.. And in particular, what they were doing was allying with large companies who they thought might enter and be rivals, and instead, co-opted them, often gave them an equity stake to keep them out, to keep them as complementors, not as rivals.. They also were acquiring other small startups, but not to get their assets, but to take them off the board as a rival.. They were also engaging in a number of symbolic actions.. For example, storytelling, founding storytelling of how the founder, you know, was this really frugal guy who drove

across the country in a beat up VW bus, or there's other stories around, you know, "My girlfriend wanted something, and so I created this marketplace." So it had these stories that were fairly colorful.. Kind of true, but kind of not, but very catchy for the media.. So what these entrepreneurs were doing was they were changing, they were shaping what the structure was, keeping certain rivals out, getting rid of other rivals, and creating what they called the cognitive reference..

They became the company that you thought of when you thought of that market...