White Paper: Growing an Ecosystem with Differentiated Business Counseling and Mentoring

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The New Geography of Jobs

According to Enrico Moretti's ground breaking book, “The New Geography of Jobs,” manufacturing sector companies have been superseded in the knowledge economy by innovation sector companies. While they were once the holy grail of community planners, manufacturing sector companies are no longer the number one industry to attract, nurture, and grow.

The desire to create innovation hubs over manufacturing hubs is based on the fact that innovation jobs pay higher wages and create a higher multiplier effect. To explain, innovative industries create a higher multiplier effect because for each highly paid worker, five local service jobs are needed to support them. Jobs in the service sector range from professionals, such as doctors and lawyers, to non-professionals, such as waiters and landscapers. By contrast, manufacturing jobs historically only generate 1.6 additional service jobs in the local area.

One key premise of Moretti's book is that industry-focused brain hubs create thick labor markets with lots of specifically skilled workers. For example, take the software cluster in Silicon Valley, the life sciences cluster in Boston, or the financial or garment industry clusters in New York. These thick markets make it easier for a business in a targeted, innovation industry to acquire needed talent. Moreover, these brain hubs create human capital spillover as the proximity of highly specialized workers to each other helps the exchange of new and creative ideas.

Both manufacturing startups and innovation startups require large upfront investments. However, the capital needed to start a manufacturing startup is used to purchase and configure tangible equipment. In particular, it is invested in the equipment necessary to produce its physical products. In contrast, the capital needed to start an innovation startup is invested in intangible investments. For example, most of the initial investment is spent on high priced labor to develop a mostly intangible product or service.

In spite of their risk and large upfront costs, an ecosystem needs to attract and grow these trade sector businesses. Trade sector businesses produce products or services that can be consumed outside the ecosystem, which makes them very desirable to nurture because they generate high paying jobs, experience steady productivity gains, and bring money from the outside world into the community.

Therefore, it is no surprise that communities want to develop their own knowledge-based economy. Consequently, they spend a significant amount of time and money to attract or create their own specialized brain hub clusters. However, as communities create more innovation jobs, they also create five local service jobs to support the lifestyle of the innovation startup's employees.

Since these innovation clusters compete for the best talent they drive up wages. Therefore it is very expensive to start innovation companies. Yet, the costs required to start and grow service businesses in a local community keeps dropping. In fact, the costs of starting a local service-based business has never been lower for the entrepreneur.

Rise of Small Business

Before the advent of the internet and the flattening of the globe, the cost to start and grow even a very small business required a significant amount of upfront investment. Today, however, the business landscape is quite different.

- No longer do businesses need to open a physical storefront. They do not need to pay rent and sales staff to sell their goods. Instead, businesses can use technology to sell the same goods to the entire globe using automated e-commerce websites for free or at a very low cost.
- No longer do businesses need to invest in expensive marketing collateral. Businesses can engage with customers more effectively by using social media channels.
- No longer do businesses need to hire full-time, local employees. Instead, businesses can contract many part-time, highly specialized, offshore resources. For example, they can hire bookkeepers and web designers at a fraction of the cost using tools like upwork.com or freelancer.com.
- No longer do businesses need to focus primarily on mainstream products and services. They don't need to produce their products in large batches to counteract the considerable upfront costs. With bottlenecks between supply and demand disappearing, businesses can take advantage of what Chris Anderson calls The Long Tail Economy.

Yet, in spite of the changing economic landscape for local businesses, the standard business advice remains rooted in outdated models, models designed around the justification of expending large upfront amounts of capital to start a business. While still appropriate for some businesses, such as innovation or manufacturing startups, it is less appropriate for other businesses since their startup capital requirements are different.

Today, many ecosystems have a less than stellar track record when it comes to attracting or growing new trade sector businesses. One reason is that the tools and advice for all startups, regardless of industry, is primarily focused on scaling trade sector businesses.

Infrastructure businesses, like trucking or communications companies and local service companies, represent the vast majority of startups. They are necessary to support innovation and manufacturing companies and their employees. These local service businesses include main street retailers, professional services such as doctors and lawyers, and personal services such as hairdressers and landscapers. Not only do these infrastructure and service businesses prevent ecosystem dollars from leaving a community, some may become second stage companies. If nurtured properly, they can become huge primary employers or even a corporate headquarters.

Take, for example, the retailer Walmart and the trucking company J.B. Hunt. Neither would be considered highly specialized, innovation businesses. As such, they aren't highly sought after by ecosystems looking to reinvent themselves. However, Walmart started as a single retail store in Bentonville, AR. With the help of the intermediate services offered by J.B. Hunt, they both developed headquarter operations and grew to dominate the ecosystems in and around Bentonville Arkansas.

Similarly, small service-oriented businesses can become primary employers or develop into corporate headquarters. For instance, H&R Block, Midas Muffler, and Jan-Pro Cleaning Systems all grew from a single location, built a franchise model, and now draw huge amounts of wealth from across the country to the ecosystems where they were first founded. The birth places of each of these companies are where their corporate offices are now housed.

Even my own documentation and training business started in Colorado Springs and expanded by opening offices in several other states. Once it was well-established, my business transferred a lot of wealth from other ecosystems to support the many high-paying, corporate jobs in our Colorado Springs headquarters. Moreover, the profits paid to myself and my other partners, who were all part of the local ecosystem, were reinvested to spawn other local businesses.

While innovation and manufacturing companies may be sexy and the darlings of many ecosystems, they are by no means the only way an ecosystem can create primary employers that pay high wages. Many intermediate companies have the potential to be highly scalable and grow into headquarter units. Additionally, local service businesses can also become primary employers as they franchise their business model. Moreover, without the proper infrastructure of support services type businesses, innovation companies and other high paying, primary employer businesses will either move or be sold to larger companies outside the ecosystem. For example, Microsoft left Albuquerque, NM and moved to Seattle, WA due to a lack of programming infrastructure.

Since they are so engrossed in promising innovation startups, most ecosystems focus on removing the barriers that act as the headwinds preventing these businesses from advancing. They invest in incubators, provide access to prototyping tools through maker spaces, and even award seed money to startups with promising ideas. However, they often miss a key element – providing differentiated advice to startup entrepreneurs based on the entrepreneur's business stage, business type, and scalability.

Business Type Definition

The startup landscape has changed in recent years and more businesses can be bootstrapped than in the past. As a result, there has emerged greater differentiation between businesses that need large upfront capital infusions and those that can be bootstrapped. This essentially has created two types of entrepreneurs, each with different reasoning styles driven by the type and maturity of their business.

Manufacturing and technology companies remain the favorite of many ecosystem designers because of their success in places like Silicon Valley. It is no surprise that ecosystems love these startups since these companies, if successful, can become very large very quickly and become primary employers. Moreover, they can buoy up secondary service businesses in their thirst for further growth. Additionally, founders flush with cash often reinvest in new local startups, accelerating a community's growth. All of these consequences are desirable qualities for an ecosystem. However, by their nature, innovation sector companies have very high startup costs because it may take months (or even years!) and considerable expense to develop a viable product. Moreover, these companies have a higher likelihood of failure and loosing all their invested capital. Therefore, they are risky to start. In fact, according to the Cincinnati research

agency AcuPoll, 95% of all new products will fail.

Since there is so much at stake in getting it right the first time, startups that need to fund intangible expenses, such as the R&D efforts of innovation sector businesses, require copious amounts of upfront planning to minimize the risks necessary to secure large equity investments. Yet, these types of startups represent only a small fraction of all startups in an ecosystem. Even so, they continue to dominate the mindsets of most ecosystem planners at the expense of infrastructure and local services type businesses that can be bootstrapped more easily.

Unfortunately, the startup process recommended for these promising innovation businesses (with their inherent business risks and large upfront capital requirements) is the basis of most business advice given to the nascent entrepreneur. The advice, while appropriate for these types of startups, can be inappropriate for others.

Existing business mentoring models are primarily based on advice appropriate for risky businesses that require large upfront investments. Therefore, a case can be made that this "one size fits all" educational, counseling, and mentoring model contributes to the historically poor record of ecosystems to foster real economic growth in non-innovation based business sectors.

Most ecosystems fail to recognize that they need to provide differentiated advice based on the type and stage of the startup business. Rather than nurturing burgeoning businesses with differentiated advice, most ecosystems focus on the kind of advice appropriate for highly scalable, innovation-based startups. Instead, advisers should differentiate and tailor their advice based on the business type, stage, and scalability of the startup.

Capital intensive businesses, such as innovation or manufacturing businesses, require large upfront cash infusions or expensive, specialized tangible assets. These businesses need to have a highly evolved business model and economic model to be successful. Their business plan needs to be rock solid before they launch to justify the level of risk capital or debt financing initially required.

However, most startups are local service businesses and few are truly scalable. Consequently, they only require funding from the founder and perhaps close friends and family. For these types of businesses, the adviser needs to provide a completely different type of advice than provided to capital intensive businesses. In fact, non-innovation businesses are often less risky, require much less upfront capital, and are better able to evolve their business and economic models as they continue to grow and mature over time. Eric Ries of the Lean Startup Movement calls this validated learning.

Entrepreneurial Reasoning Skills

What has emerged, as the funding and risk gap has widened, is a greater awareness that there are different entrepreneurial reasoning skills required depending on the industry sector, growth stage, and scalability of the startup.

Based on research performed by Saras D. Sarasvathy of the University of Virginia's Darden School of Business, there are specific characteristics, habits, and behaviors of successful startup entrepreneurs. The thought and problem solving processes of successful entrepreneurs identified by this research uncover a set of principles and logic that are quite

contrary to the advice entrepreneurs in early stage innovation and non-innovation industries are frequently urged to follow.

Most entrepreneurial advice is delivered by corporate leaders from legacy businesses, academic institutions, and business service consultants such as CPA's or lawyers. These advisers, based on their locus of experience, have more management dominated reasoning skills. However, most startup entrepreneurs outside innovation driven industries look at the problem of starting a new business with a different set of reasoning skills that are often better suited to launch less costly and lower risk ventures.

These advisers often focus solely on business administration and high levels of pre-planning. According to Saravathy, this advice is out of sync with the advice needed for the vast majority of startup entrepreneurs.

According to Sarasvathy's research, what makes the startup entrepreneur's mind different is that they employ **effectual reasoning.** However, most business advisers come from, and therefore, focus on **causal reasoning.**

Causal Reasoning

Causal reasoning is the domain of post validation innovation type startups with their higher risk and large upfront capital requirements as well as second stage businesses in more mature and competitive industries. I like to call entrepreneurs with causal reasoning skills “manager entrepreneurs.” Causal thinkers start with a destination or goal and back up one step at a time to figure out all the steps that need to happen to effectively reach the stated goal.

A field general is an example of a person with causal reasoning skills. The general's target is clear (e.g., taking that hill, capturing new lands, or defeating the opponent's army). Causal reasoning is goal-driven and a person with causal reasoning skills comes up with the best, quickest, most inexpensive, and most efficient way to achieve the desired objective.

Below are a few examples of business decisions that use causal reasoning skills:

- Should I make it or buy it?
- Which customer segment will give me the highest possible return?
- Who is the best person to hire for a job?

All of these decisions have a terminal goal in mind and are the basis of causal reasoning. When it comes to business advice, causal reasoning supports the more traditional paradigm of extensive upfront business planning and analysis prior to launch.

Effectual Reasoning

Effectual reasoning is quite different and is the domain of early stage innovation sector businesses and of most infrastructure sector startups. I like to call entrepreneurs with effectual reasoning skills “founder entrepreneurs.” With effectual reasoning, the person does not begin with a specific goal or target in mind. Instead, they focus on their assets, talents, and abilities and look for ways to use them to solve a problem. Essentially, they start with the means and not the goal. By following the means, the goal emerges over time.

An explorer is an example of a person with effectual reasoning skills. The explorer often has a vague idea of the end goal, but is very open to

swapping the goal with a new and better one based on new information.

For example, Christopher Columbus left Spain to sail westward to establish a spice trade with Asia. He landed in the Americas and met the indigenous people, who were wearing gold earrings. Rather than continuing to focus on reaching Asia, he pivoted and attempted to locate the source of the gold.

When it comes to business advice, effectual reasoning supports a different paradigm predicated on extensive testing with minimal investments as the business and economic model continue to evolve.

Advice & Reasoning Skills

Ecosystems should recognize that the mentoring and nurturing needs of the founder and manager entrepreneur are quite different. The founder entrepreneur requires advice predicated on more effectual reasoning skills since the business and economic models are still being formulated. However, as the business venture reaches a greater level of maturity and begins to grow, the business advice needs to incorporate more causal reasoning skills.

Disregarding the type of business and its growth stage can lead to inappropriate advice that not only inhibits growth, but can kill the business before it reaches an adequate level of maturity.

Founder vs. Manager Entrepreneurs

By definition, an entrepreneur is a person who organizes and operates a business, taking on greater than normal financial risk to do so. Unfortunately, this definition does not take into consideration the difference between a founder and a manager entrepreneur. A founder entrepreneur has more effectual reasoning skills and organizes the business in its early stages, while a manager entrepreneur has more causal reasoning skills and operates a more mature high growth oriented business.

Most successful entrepreneurs possess some degree of both causal and effectual reason skills. However, founder entrepreneurs have more well developed effectual reasoning skills while manager entrepreneurs have more well developed causal reasoning skills.

Founder entrepreneurs are leaders who focus on generating ideas, creating value, attracting followers based on their vision, and motivating their audience.

Manager entrepreneurs, by contrast, are about planning and execution, counting and measuring value, and coordinating and controlling the efforts of others.

Based on this list of attributes, it becomes pretty clear why manager entrepreneurs are more appropriate for startup ventures that are more risky and require large upfront capital investments, such as product companies. That being said, the vast majority of startups do not involve investments other than from the founder and perhaps his friends and family.

Scalable Business Transformation

A common problem with founders of potentially scalable businesses is that more causal reasoning skills are needed as their business grows from startup to a viable and scalable business. Many founder entrepreneurs who try to go it alone do not transition well from effectual reasoning to causal reasoning as their venture scales up. Often their business fails to grow, withers, and ultimately fails, forcing the founder to sell the

business to a manager entrepreneur or hire a manager entrepreneur to run the business.

Richard and Maurice McDonald were the founder entrepreneurs that started McDonald's. They had the vision that the car culture was coming and they built a drive-in car hop restaurant to quickly serve food. They invented the flat top grill and replaced glasses, napkins, and silverware with paper cups, paper bags, and wrappers. They experimented with menu items and finally settled on nine of their most popular items. However, they struggled to grow McDonald's beyond just a few franchise locations. It was actually Ray Kroc, a manager entrepreneur, who made McDonald's what it is today. Kroc bought the business from the McDonald brothers, took what they created, and built the most successful fast-food operation in the world. Both sets of owners could be considered entrepreneurs. However, Richard and Maurice didn't have the causal reasoning skills to grow McDonald's larger than just a few restaurants and Kroc did not have the effectual reasoning skills to start McDonald's initially.

In another example, Pierre Omidyar was the founder entrepreneur who used his effectual reasoning skills to start eBay. During its early days, eBay was a simple platform for trading items in the San Francisco Bay Area. Then, as traffic increased, it morphed into an online auction house. During the first few years, Omidyar changed his business and economic model several times as surprises and new information emerged. He continued to pivot eBay as it evolved. However, it was not until Omidyar hired Meg Whitman as the new CEO that eBay really took off. As the manager entrepreneur, Whitman used her causal reasoning skills to grow eBay from a company with just 30 employees to one with more than 15,000 employees. Again, Whitman did not have the effectual reasoning skills to start eBay and Omidyar didn't have the causal reasoning skills to grow it larger.

It is also the case that many successful high growth businesses are started by partners. One has exceptional effective reasoning skills and acts as the strategist. The other has exceptional causal reasoning skills and acts as the business tactician. Examples of these partners include:

- Microsoft's Paul Allen and Bill Gates
- Apple's Steve Wozniak and Steve Jobs
- HP's William Hewlett and David Packard

The list goes on and on.

Earlier in this paper, it was discussed that effective ecosystems should deliver the proper advice and mentoring to the appropriate kind of startup at the right time in their development. In addition to giving the right kind of advice, ecosystems need to provide a mechanism and opportunity for founder entrepreneurs of scalable second stage businesses to identify and partner with manager entrepreneurs. Often businesses are unable to transition from effectual to causal reasoning and having a mechanism in place would help these businesses to go to the next level. In this way, founder entrepreneurs can start the business while manager entrepreneurs can scale the business.

Founder Entrepreneur Principles

The principles used by manager entrepreneurs are represented in most of the existing business advice and literature. However, the principles practiced by the founder entrepreneur are less understood. By comparing the typical advice given to entrepreneurs with the principles that guide founder entrepreneurs, corporate leaders,

academic institutions, and business service consultants, we can better understand what most startups and non-scalable businesses need.

According to Sarasvathy's research, founder entrepreneurs, as defined in this paper, apply three principles as part of their reasoning that represent a dramatic departure from the typical advice often given to startup entrepreneurs.

The Affordable Loss Principle

Manager entrepreneurs use their causal reasoning skills to focus on the "expected return" while founder entrepreneurs use their effectual reasoning to focus more on "affordable losses." To be more specific, manager entrepreneurs have been taught to analyze markets and choose a market segment with the best possible returns. Founder entrepreneurs look for ways to reach markets with a minimum expenditure of resources (e.g., time, effort, and money) and minimal risk even if they may not produce the best returns.

Since founder entrepreneurs rely less on upfront planning, they are not sure their approach will work. Thus, they make their decisions based on how much loss is affordable if their idea does not gain traction.

Founder entrepreneurs have a "just do it and see what happens" attitude while manager entrepreneurs insist on a thorough, upfront market analysis. Market research for a founder entrepreneur starts with small scale experiments or minimally viable products (MVP) to test the waters. Often, they do not even assume the expense of developing an MVP. Instead, they may use mock-ups or try to sell products or services before developing them to make sure there is a market willing to pay for their solution.

Therefore, founder entrepreneurs approach their business development from the prospective that it may take several tries to reach a successful offering. As a result, capital preservation takes a prominent role in their planning process.

All too often business advisers discourage founder entrepreneurs from practicing the affordable loss principle and pursuing lower risk returns. Instead, they advise pre-planning and aiming for the highest returns even if the risk of failure is greater.

The Strategic Partnership Principle

Manager entrepreneurs use their causal reasoning skills to conduct a competitive analysis to help them define a unique niche for their business. This is demonstrated by the Blue Ocean Strategy postulated by W. Chan Kim and Renée Mauborgne. In contrast, founder entrepreneurs use their effectual reasoning skills to build strategic partnerships with customers.

Founder entrepreneurs do not start with a pre-determined target market or niche or conduct a competitive analysis. Instead they target a single customer and conduct a dive deep analysis. This analysis helps them understand and then meet that customer's specific needs with a "one size fits one" solution. They pick the brain of their single target customer and do not focus on their competitors. They strive to develop a product or service that is so well aligned with the customer's desires that it dislodges any incumbents that are operated by manager entrepreneurs with a "on size fits many" solution. By engaging the customer in designing the solution, founder entrepreneurs invite their clients to be strategic partners as opposed to simply someone to sell to.

When I started Horizon Interactive, my first customer was Digital Equipment Corporation. As a former employee, I worked with their divisions to design our deliverables and processes based on their specific needs. Rather than performing any real upfront market analysis, we engaged the client to help us design our services. Having the client participate in the design was more effective than speculating on what a potential customer might want, building it, and then trying to sell it.

Moreover, founder entrepreneurs often secure development funds before committing resources to a solution by having a strategic partnership with their client. In this way, the founder entrepreneur has a low level of capital outlay when developing their offering.

One of my business mentors, Ron Muns, used the strategic partnership principle very effectively when he started Bendata. He developed a strategic partnership with three clients to develop a software application to track calls in computer service departments. Each strategic partner contributed technical specifications and provided capital toward the development of the first deliverable. In the end, Muns owned the rights to the underlining software. This software morphed several times based on the surprises and new information as his business and economic model matured. Ultimately, the product went on to become the wildly successful GoldMine CRM application and spun off several other successful businesses.

As a variant of the strategic partnership principle, some founder entrepreneurs leave their employer. They develop a business based on their extensive industry knowledge and relationship with their former employer's vendors and customers. This was the case with Sam Walton who parted ways with his former employer Ben Franklin Five and Dime and created Walmart. Another example is Arthur Blank and Bernie Marcus who left their former employer Handy Dan Home Improvement Center and started Home Depot.

All too often business advisers discourage founder entrepreneurs from practicing the strategic partnership principle and instead advise them to identify the most profitable customer segment, perform a detailed market analysis and competitive analysis, and define a unique niche before ever moving forward.

The Leverage Contingency Principle

Manager entrepreneurs use their causal reasoning skills to try and predict the future, in an effort to avoid surprises. Founder entrepreneurs use their effectual reasoning to turn an unexpected result or condition into a profitable end. They plan for the expected, but try not to extend too much in case they are forced to pivot. Surprises are welcomed as inputs to pivot their new venture.

In a former career, I was a Fire Control Technician (FT) in the United States Coast Guard. As an FT, we used a radar to track a target and then a sophisticated computer to account for a score of variables. These variables included air temperature, wind speed and direction, projectile and powder temperature as well as a dozen other factors that would affect the flight of a projectile weighing more the 50 lbs as it travels from the muzzle of the gun to the target potentially ten miles down range. The goal was to point the gun at an imaginary point in space where the bullet and target would both occupy the same space at a given point in the future, hitting and destroying the target on the first shot. A lot of effort was required to deliver an accurate first shot. After all, during a ship-to-

ship or ship-to-plane battle, hitting your target first is essential to survival. This fire control example is equivalent to the needs of product type startups which rely on lots of upfront planning where speed and accuracy of execution is paramount.

Compare the fire control example to the way a Gunner's Mate (GM) in the Coast Guard approaches the same problem. They use a bunch of relatively cheap 50 caliber bullets and a simple optical sight. The GM simply aims at the target, knowing that his first few rounds will most likely miss the target since he does not account for any of the variables which affect the trajectory of the projectile. After a burst of a few rounds, he simply observes the fall of shot and then adjusts his aim until he hits the target.

The contingency principle is more like the GM's example. It uses little upfront planning, lots of cheap MVP's, and observers the results to adjust their next move until a better solution is reached. Rather than following the “ready, aim, fire” model of the manager entrepreneur, the founder entrepreneur practices the “ready, fire, adjust aim” model until they get a hit.

In the early stages of a company, manager entrepreneurs often experience a “ready, aim, aim, aim, and never get to fire” scenario. In contrast, founder entrepreneurs plan for contingencies and use their effectual reasoning to recognize and leverage surprises to adjust their aim.

Here again, all too often business advisers discourage founder entrepreneurs from practicing the leverage contingency principle. Instead of encouraging the founder entrepreneur to make small incremental steps to observe what happens, they recommend extensive upfront planning to hit their target or goal on the first try.

Causal vs. Effectual Logic

According to research performed by Sarasvathy, the logic practiced by the manager entrepreneur is predicated on the belief that:

> *To the extent that we can predict the future, we can control it.*

Manager entrepreneurs endeavor to conduct copious amounts of research and analysis in an attempt to predict the future and then devise plans to exploit a future opportunity.

In contrast, the logic practiced by the founder entrepreneur is predicated on the belief that:

> *To the extent that we can control the future, we do not need to predict it.*”

Founder entrepreneurs look for ways they can shape the future right from the get go.

For most startups, being in a predictable market is generally not a good market to be in. It is difficult to find success in predictable markets because there are always smarter people with more money who can build better prediction models. However, being in an unpredictable market means that the market itself can be shaped through the founder entrepreneur's own decisions. Their decisions and actions work in conjunction with stakeholders, customers, and partners to shape the market. Thus founder entrepreneurs are in the business of creating the future and not trying to predict it.

Moreover, a founder entrepreneur's logic is people-dependent while a manager entrepreneur's logic is target-dependent. With causal reasoning,

the target (e.g., the customer segment) is chosen first. Then all decisions (e.g., who to hire or partner with) is dependent on the target chosen. Effectual reasoning does not assume a target. Instead, it builds on the idea and assets available to the founder entrepreneur. The market they create is based on the people they bring together and their ability to influence the future.

Conclusion

Development and execution used to be where all the costs were. Planning was cheap in comparison. Business paradigms spent more time and effort in the planning phase to avoid costly mistakes in development and execution. Moreover, the pace of technological advances that could move the target was much slower.

Today, development and execution are far less expensive and the pace of technological advancement is much faster. As a result, there has been a shift in the reasoning skills of entrepreneurs that has not been adequately incorporated into current business advise paradigms.

More than ever, the skill difference of founder entrepreneurs and manager entrepreneurs is more profound. Yet, when it comes to educating nascent entrepreneurs, the advice provided has fundamentally remained the same and continues to be rooted in causal reasoning.

Today, we know that founder entrepreneurs and manager entrepreneurs have different reasoning skills and apply a different logic when it comes to the way they approach starting a new business.

Ecosystems can no longer continue to dispense advice indiscriminately to all clients principally designed around a "one size fits all" paradigm. Business mentors, counselors, and educators from academia need to ascertain if the business needs advice predicated on effectual or causal reasoning based on the type of entrepreneur and the maturity of the business.

Startups, such as innovation sector companies that are riskier and require large upfront investments, may need both founder and manager entrepreneurs in the beginning. However, as their need for money increases even before launch, the company needs a manager entrepreneur more to justify the large investment and advice based on causal reasoning.

However, most startups need a founder entrepreneur initially and business advice predicated on effectual reasoning in the early stages. These startups includes second stage retail or service companies that are less risky and require little upfront investment, but have the potential to be highly scalable. As the business and economic model become more defined and the business begins to scale up, they need a manager entrepreneur and advice related to causal reasoning. Moreover, ecosystems need to establish ways to recognize and match founder entrepreneurs with manager entrepreneurs in case the founder entrepreneur is not capable of making the transition from a startup to scalable business.

Finally, the largest segment of startups include local service providers or home-based companies with no desire or potential to scale. These startups are just fine with a founder entrepreneur and advice focused on primarily effectual reasoning.

Recommending that all startup entrepreneurs apply causal reasoning skills is inappropriate. Therefore, while most startup entrepreneurs

should possess causal reasoning skills, they should also possess the characteristics, habits, and behaviors of effectual reasoning. Currently, they are encouraged to abandon effectual reasoning skills and adopt a more causal reasoning prospective long before it is appropriate to do so.