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## **Entrepreneurship as an Innovative Process: about Initial Ideas, Concept-Creative Founders, and the Entrepreneurial Society**

The topic of entrepreneurial startups does not immediately bring Peter Drucker to mind. Rather, it brings to mind the many advisers who will tell you how to get started successfully: determine the company's legal framework, set up an accounting system, make decisions on marketing, staffing, financing, and much else. And the founding idea? Not the decisive factor, say the advisers. Ideas are a dime a dozen, they say – it's the implementation that matters. What matters are the managerial competencies that direct all your business processes.

Sounds reasonable, says Drucker – but it's actually wrong-headed. Don't start from the conventional processes that come with a start-up, let alone from the paperwork you have to take care of. Think from the angle of your innovation: what is the substance of your idea; what are the reasons for wanting to create an entrepreneurial start-up?

So was I thinking about Drucker, in my own field of expertise, that of entrepreneurship? No, I wasn't. Of course I had heard about him, had read him, as the management guru, the visionary, who articulated many things so much more clearly, less pretentiously, than some of today's expensive consulting firms.

*Every great business starts with a small entrepreneurial idea.* This sentence from Drucker I had picked up because I liked it. Yes, a flash, a small idea is what gets you going. A starting idea, so to speak. It doesn't let go of you if it has potential. You do research; you work on the idea; you mull on it. It grows; it gains depth and scope. The outline of a concept emerges. You reject some parts; you redesign:

you experience breakthroughs, setbacks, real and imagined barriers. You push the parts of your concept around, like pieces of a puzzle, until – at some point – you get them to fit together.

The starting idea: couldn't one offer tea for much less money? An intuitive flash, a conjecture only, and yet the beginning of something larger. Tea leaves the plantation as an end product. It does not need to be roasted or ground, like coffee. No further processing required. Just packaging. Then why is the product so expensive in the tea shop? What makes it expensive are the many middlemen. Can you circumvent the wholesalers, importers, exporters? Not if you offer a large and diverse assortment of teas. In that case, you buy such small amounts that the retailer cannot avoid dealing with a wholesaler. So: reduce the assortment; reduce it radically. Limiting yourself to just a few kinds of tea would let you buy in larger quantities. In fact, it would be best to stick to just one kind of tea. But who wants to drink just one kind of tea? Probably no one.

So, start again. Or not? After all, the idea of radical simplicity would make the tea much more affordable. You have found a lever on the problem; the idea has seized you and won't let you go. But the whole thing doesn't fit together yet. Start from scratch. You don't have to skimp on the purchase price of the tea; that's almost immaterial. What makes the tea expensive is the series of intermediate trading steps. Hence, buy a good tea. Better yet, a very good tea. But will customers believe your peculiar company's assertion that the tea is very good? After all, every trader in the market claims that his product is the cheapest and best.

Eventually even your own colleagues and friends begin to look at you as a little strange, if not weird. But if you are persistent enough, at some point everything comes together. "Things fall into place," as the saying goes. How about buying the best tea there is? As a benchmark, and to make the point? Is there such a tea? Is it sufficiently known and recognized? Back to research once again. Your findings: the tea-growing region of Darjeeling, and the first pick after the winter break – the legendary First Flush. There's an indisputable measure of quality.

Looks pretty good, doesn't it: the best tea in the world, at an unbeatably low price. Pretty persuasive to the customers, right? So that

you can buy enough to order directly in the country of origin? Better still to replace the customary small packages with large ones, to reduce the price for the consumer even further.

Now you can't sit still anymore. In your mind, you already envision the collapse of the established competitors. Time to get going! "Zarathustra descends from the mountain, glowing and strong like the morning sun that emerges from dark hills." You yourself are completely convinced; to others, however, the concept looks fishy, if not foolhardy. Time and again, this has been my experience, but also that of the founders in my acquaintance. If you think radically in terms of functions, rather than conventions, you face incomprehension. "You are a fool until your idea becomes a success," as Mark Twain already knew.

The starting year of Teekampagne: 1985. Just one kind of tea, and that only in large packages. "People, don't you see how crazy the fellow is" – thus a student, when she heard the concept introduced in one of my classes. The colleagues in your discipline put it a bit more elegantly. You become an outsider, part of the lunatic fringe. In that place, it is good – both for your own self-image and for your professional reputation – if you can cite an older brother, the guru of all management gurus, who said, "At the beginning, there is a little idea."

The topic of entrepreneurship only shows up once in Drucker's work, in the title of a book published in 1985: *Innovation and Entrepreneurship*. This publication is not among his most famous writings, but rather a reference among insiders. But it contains a number of insights that are at odds with the mainstream of the entrepreneurship literature; views that one still has to do battle for.

"Professor, the world needs hair dressers and car mechanics too, not just your creative types." True. We also need electricians, roofers, and house painters. Self-employment, owning your own business, cannot be the chief common feature of entrepreneurship. Drucker explicitly distinguished between the *small business owner* and the *entrepreneur*. Most start-up mentoring in Germany puts the small business owner and the conceptually creative entrepreneur into one and the same category, just as if *imitative* startups required the same tools as *innovative* ones. English usage has a better categorization: it

distinguishes between *business administration* and *entrepreneurship*. Whereas the first term focuses on the organizational and administrative aspects of a business, the term “entrepreneurship” directs your attention to the New – to the creative and innovative dimensions of a start-up. An imitative start-up naturally encounters strong competitive pressure. In order to succeed, it has to utilize all possible managerial and organizational efficiencies. An innovative start-up is not subject to competition in the same measure. Since the innovation itself constitutes the competitive advantage, it makes sense to focus one’s competencies and resources on that innovation. Unfortunately, the term “entrepreneurship,” long accepted internationally, still gives us a headache in Germany. But where you lack precise terminological distinctions, precise comprehension and implementation are slow to arise. Our terminological stewpot called “entrepreneur” often also includes executives who are employees, but not owners, of a company.

And who, I am then asked, is fit to be an entrepreneur? Don’t we all agree that not everyone is suited for this role? There must be tests! Tests for the qualities that constitute the true entrepreneur<sup>1</sup>: sharp elbows; a dominating personality; profit motivation; egocentrism – a list of such qualities is quickly generated. But the reality is quite different. There is a plethora of empirical studies, with the same conclusion: it is *not* possible to identify typical characteristics of successful founders. Entrepreneurs come in all different kinds. If at all, characteristic traits emerge in the *process* of longer-term, persistent engagement in the field of entrepreneurship. It is a folly, therefore, to focus on selection and characterize the entrepreneur as an unusual, rare (or even peculiar) figure. Drucker clearly rejected the clichés that make up our image of the entrepreneur. The entrepreneur, in his view, neither needs to be a genius, nor has to come up with a powerful, grandiose idea. *Attitudes and skills can be cultivated*. The entrepreneurial process, says Drucker, can be explained and follows certain principles. Most importantly, it begins with innovation. Drucker names seven sources of innovation. He emphasizes

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<sup>1</sup> The German word is “Unternehmer” – another empty shell of a word that belongs in a museum of imprecise, outdated terminology.

that innovation can be approached *systematically* and – following Schumpeter – should not be equated with inventions or patents. Which takes us back to the ideas and concepts.

Sometimes it is even sufficient to transfer something familiar into a new field or context. The founders of Skype demonstrated this principle. Their company uses a standard software, VOIP, that has been around for years. The innovation lay not in their independent development of a product, but in their user-friendly elaboration and the improvement of interfaces – a relatively small effort, by the standards of developing a new technology. The decisive factor was that the founders could apply their experience in transporting large amounts of data, which they had acquired in running the Kazaa website.

If you radicalize this approach, you end up with the components concept: to piece together a new enterprise from building blocks that already exist. We can then imagine entrepreneurs as composers. They compose a new work from pre-existing elements – analogous to musical notes or the instruments in an orchestra. It is the simplest way of founding a start-up, and it has striking advantages: the founder can rely on proven elements that are professionally organized. Intensive division of labor and specialized services have prepared the field for this. Drawing on the construction kit that is already available, and that is daily supplemented by new parts, tools, and variations, we invent new combinations. The founder, then, has three tasks: one, to come up with a concept that can be composed of components; two, to find the right partners who can provide these components in a professional manner; three, to coordinate and control the interplay of these components. Investments are hardly needed anymore; mind has superseded money.

A related keyword is *simplicity*. *Successful innovators*, says Drucker, *start small and, above all, simple*. This is advice you cannot take seriously enough; it is supported by an even higher authority – Leonardo da Vinci's dictum that "*simplicity is the highest perfection*."

However, simple ideas usually appear at the end, not at the beginning of the creative thought process I have described. As a rule, they are preceded by seemingly endless thinking loops, from which at some point the core aspect emerges. Entrepreneurial ideas like

those that created Gottlieb Duttweiler's Migros in Switzerland, Aldi in Germany or Ikea in Sweden, but also Teekampagne, are examples of concepts that are ultimately simple, but that have been thought through tenaciously for a long time.

Simplicity is a helpful principle. Most mistakes after an initial start-up occur as a consequence of unmanaged complexity. Processes become complicated on their own; the trick is to reduce them to simplicity again. Complexity is the founder's foe and needs to be resisted. Especially in phases of rapid growth, problems multiply and lead to those crises that are so frequently found in new enterprises. As the proverb has it, *any fool can complicate things*. It requires more brains to think things through so that they remain simple and manageable.

Drucker spelled this out quite clearly and emphatically. Here is an excerpt from an interview with the German *manager magazin* (4/2002: "I feel sorry for managers"):

*mmr.* Can one even say that multinational concerns like Daimler Chrysler are manageable?

*Drucker.* No, certainly not, the way they are organized today ...

*mmr.* Why?

*Drucker.* Because it becomes ever more difficult and expensive to marshal all the expertise required to manage all the various tasks. Nothing complicated works. Only simple things work.

*mmr.* You are just being provocative.

*Drucker.* I am serious.

But there is yet another aspect that matters to Drucker: the social dimension. In the words of noted Amazon book reviewer Werner Fuchs, "Recent events in the world of business and finance have diminished the reputation not only of managers, but also of their advisers. Many so-called business theorists are silenced or are busy refashioning their narratives. If Peter Drucker were still alive, he would have no need to do that."

Drucker saw the biggest difficulty in reconciling the interests of different groups of stakeholders: *Investment funds urge companies to drive up short-term profits. At the same time many people who invest in shares for their retirement seek long-term company profitability. This conflict between a*

*long-term orientation and short-term profits has caused a crisis for top management.* These are statements, articulated long before the present crisis, that could not have been more prescient.

Drucker has no patience with a perspective that is narrowly focused on one's own enterprise. He has a pragmatic argument: *Many managers still live in the nineteenth century, when many innovations came out of a particular company or industry. Today it's essentially the changes outside and around the company that shape its fate.* Innovations, he says, arise not only from progressive developments and patents within one's line of business.

Far more than in earlier times, social developments need to be recognized as triggers of innovation. This is of timely relevance. To bring it to the point: an exclusive focus on sales and profits can become a *barrier* for entrepreneurial success. At the beginning of the 21<sup>st</sup> century, successful firms establish themselves not solely through managerial rationality, but through ideas for the future and sensitivity to the values of the society in which they exist. Teekampagne would be less successful if it only considered its short-term self-interest. The notion that *ethics pays* is received wisdom in management literature. The thesis that *market should become moral* is gaining acceptance. Mohammad Yunus's appeal to larger companies to get involved in *social business* meets with open ears, as business leaders recognize the need to position themselves not only in their markets, but also in their societies.

Drucker is the management theorist who has delineated the boundaries of management science – one could almost say, who has put it in its place. The *entrepreneurial society* envisioned by Drucker may yet lie some distance in the future. But what we can already do today is to make entrepreneurial thought and action more easily understood, more attractive and more accessible. “Entrepreneurship for many” is still a vision at the moment, but getting close to the touch.