Can we teach entrepreneurship?

Do great entrepreneurs learn how to build their businesses simply by taking some short programme or earning a degree? It’s doubtful. But John Mullins convincingly argues that there’s another way to think about how to teach future entrepreneurs.
HOW MANY TIMES HAVE I HEARD THE QUESTIONS:

- Entrepreneurship is mostly about luck, isn't it?
- Successful entrepreneurs are born, not made, aren’t they?
- Isn’t entrepreneurship about being in the right place at the right time with a product or service that customers just happen to love?

Richard Branson and Virgin. Steve Jobs with Apple. Bill Gates of Microsoft. Most people, I suspect, credit their success to factors other than having been “taught” entrepreneurship. Surely, any self-respecting entrepreneur will “just go ahead and do it” - not spend months or years studying the subject.

In short, the central question I’ve heard over and over is simply: can entrepreneurship be taught?

Allow me to split a few hairs right away. If the core question means, “Can you teach someone to be an entrepreneur?” the answer is “Probably not.” It takes healthy doses of motivation, persistence, tolerance of ambiguity (and more) to be a successful entrepreneur. Simply put, following an entrepreneurial career path is not for everyone. But if the question is whether we can better equip those who choose to follow an entrepreneurial path – to avoid at least some of the bumps, bruises and scars that are sure to come - then there’s considerable evidence that the answer is emphatically “yes”! In this light, we can, indeed, teach entrepreneurship.

More than a business plan

Academics who considered teaching entrepreneurship once thought that doing so amounted to teaching students how to write a business plan. This was the programme: give students a business planning course, then have the students present their business plans to a panel of investors, and - voila! - the job is done. However, as students’ interest in studying entrepreneurship grew in recent years, such a short-and-simple programme syllabus proved insufficient. As the interest in entrepreneurship has grown, so has the terrain that demands attention in any coherent and comprehensive entrepreneurship curriculum.

The best way to begin thinking about our question is to consider the life cycle of an entrepreneurial venture. Entrepreneurship, it is said, is all about the pursuit of opportunities without regard to the resources one immediately has at his or her disposal. Thus, the entrepreneurial journey begins with the discovery of an opportunity that just might be ripe for pursuit. Before raising money and gathering other necessary resources, however, savvy entrepreneurs give careful scrutiny to the opportunity itself, ensuring themselves that the opportunity stands a decent chance of survival and that they won’t waste months or years of their lives - not to mention their precious entrepreneurial talent - chasing a fundamentally flawed idea. Thus, the first two steps in the entrepreneurial life cycle are discovering an opportunity and assessing it.

With a solid plan in hand, it’s time for step four, to gather the resources – the human and financial capital and other resources (like suppliers, partners, and so on) that it will take to give a nascent venture a fighting chance for success. With the resources in hand, and with the venture soon off the ground, the next challenge, step five, is managing the growing business, to nurse it to sufficient critical mass that it can survive in the probably hotly competitive industry it has entered. Finally, if all goes well, at some point, the time may come to harvest any value that’s been created and exit the business by selling it, perhaps to a trade buyer, or floating it on a public stock exchange.

Six steps. A neat educator’s model. But let’s be candid: any six-step model (especially if it deals with entrepreneurship) will always be more tortuous than a simple diagram suggests. Here’s what I recommend as a good approach for considering the task of teaching aspiring entrepreneurs:

The Entrepreneurial Life Cycle

Discovering opportunities
Assessing opportunities
Business planning
Gathering resources
Managing the growing business
Harvesting value

Discovering opportunities

Opportunities aren’t lying around like lost coins on the pavement, waiting to be picked up by a random passer-by. Not everyone would have seen the opportunity that Tony Wheeler saw for Lonely Planet, when growth in the number of intrepid travellers suggested that travel guides to off-the-beaten-track destinations would provide the foundation for a now-global travel publishing business. Not everyone would have seen the unmet demand that CelTel’s Terry Rhodes and Mo Ibrahim saw for mobile telephones in Africa at a time when per capita incomes suggested that African consumers would not be able to afford mobile phones.

While it takes alertness to spot such opportunities, I’ve discovered that there’s an
abundance of research skills that can be learned by would-be entrepreneurs to help them discover opportunities that are right for them. From ethnographic research skills of the kind that led to the development of Zopa.com, the new online financial services website that brings together borrowers and lenders and cuts out the banker, to interviewing skills, to techniques for digging into the mind of the customer, there’s an abundance of skills that can be learned to help anyone looking for the right opportunity do the discovery job better.

Assessing opportunities

Discovering an opportunity is just the first step, however, and many ideas that arise are just that: ideas, but not really opportunities. Assessing opportunities involves taking a disciplined look along three lines of inquiry: market, industry, and team.

All else being equal, most entrepreneurs prefer opportunities that are supported by favourable trends (demographic, social, technological, or whatever) and that serve a market that’s large and growing or that has the potential to grow. In such markets, there’s a chance that more than one entrant can thrive. Rising disposable incomes and the increasingly time-pressured lives that many of us lead today have provided fertile ground for the development of more upscale coffee bar chains – Starbucks, Coffee Republic, and others – than anyone could have imagined a decade ago.

But large and growing markets are not really sufficient – perhaps not even necessary. Be it a new good or service, what matters more is whether what the business offers is something that customers will be willing to buy. Better yet, it’s always a good omen when a new offer addresses some serious customer pain in an identifiable and accessible target market. Learning where to find data on macro trends and market attractiveness – and how to interpret it – and finding out the best ways to gain insight into customer needs are key elements on the learning agenda for any entrepreneur.

Serving an attractive market with a product customers want to buy is helpful, to be sure. Yet it’s uncanny how many novice entrepreneurs actually believe that, even after studying the marketplace, their new market offering “will have no competition”. Such thinking is naive. Most markets are served by a number of industries, some of which are brutally competitive. Entrepreneurs can learn how to assess industry attractiveness (Michael Porter’s five forces provide a useful framework for doing so) and can learn what it takes to build competitive advantage that’s sustainable over time in order to keep would-be competitors at bay, at least for a time.

The successful pursuit of opportunities involves more than serving an attractive market and playing a game in which one has competitive advantage.

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Business planning

The plethora of books, websites, and other resources devoted to business planning suggest that there’s much that can be learned about business planning. And there is. Interestingly, though, some observers say that most business plans should never have been written, for they are based on fundamentally flawed ideas that are unlikely to fly – and even more unlikely to raise investment capital. Indeed, many successful entrepreneurs never really write a business plan, at least not formally. Once they’ve assessed their opportunities, they simply get started, perhaps conducting small experiments to tease out the various uncertainties they’ve identified that could stand in the way of their ultimate success.

For those who need to raise capital, however, a business plan, at least in some form, is often necessary. With all that’s been written about business planning, perhaps the most useful thing we can now teach about business planning is how not to write a business plan. We have identified at least six common varieties of business plans that are likely to go straight into the financier’s dustbin:

- The “Me-First” business plan
- The “We Have No Competition” business plan
- The “Coke for Every Kid in China” business plan
- The “No Economic Viability” business plan
- The “No Credible Team” business plan
- The “Everything Is Wonderful” business plan
While space here does not permit a detailed examination of each of these types, their titles make their salient characteristics self-evident. In short, just as travel guides suggest routes through a mountain range that will take more time to traverse than a tourist has, it is helpful to entrepreneurs to find out, fast, what kind of business plans will get them absolutely nowhere.

**Gathering resources**

Gathering resources for a start-up venture or a growing business is fraught with complex and multi-dimensional tasks. Entrepreneurial ventures need all sorts of resources: people, money, partners and collaborators, suppliers, and so on. There’s much that can be learned from entrepreneurs who have successfully tackled these tasks.

Take finance, for example. All the questions can make you intellectually and emotionally dizzy.

Where should one look? Family and friends? Banks? Business angels? Venture capital firms? Which backer’s risk-reward ratios are most attractive? What’s the business worth, now and later? Should I seek to raise debt or equity? What do all the terms in a shareholders’ agreement mean – anti-dilution provisions, tag-along and drag-along rights, ordinary and preference shares, and so on – and must I accept them? Can I obtain the cash I need from customers or suppliers, so I don’t need a financier at all?

Answers to all these questions can be learned in the school of hard knocks or learned in advance from the experiences of others who already have walked the entrepreneurial path.

**Managing the growing business**

Any entrepreneur knows that managing a rapidly growing business is a different cup of tea from managing a stable one that’s likely to be pretty much the same tomorrow as it is today. Here, too, there are lessons that can be learned.

Most young ventures pass through a number of predictable stages as they grow. The nature of the managerial challenge differs from stage to stage. Entrepreneurship, in its early stages, is largely about doing, as the entrepreneur must do almost everything, given the typically scarce resources at his or her disposal. In later stages the managerial task changes to one of managing, but knowing when and how to make this transition is not always obvious. Understanding the growth models that academics have developed can provide useful guidance.

Managing growth also involves identifying and surmounting the inevitable barriers to growth, many of which are predictable. It involves choices about which markets to serve. Should we seek to grow in existing markets or new ones? With existing products or new ones? Managing a growing business involves managing cash, too; for an unpleasant surprise that most high-growth entrepreneurs confront is that rapid growth does not usually generate cash, it consumes it. Tools and frameworks have been developed to help entrepreneurs deal with these and other challenges entailed in running a growing business, and their timely application can save a still-fragile business from going bust.

**Harvesting value**

Some entrepreneurs choose to run their businesses for a lifetime, for the sheer joy of determining their own destiny or to avoid the stifling and bureaucratic environment found in some larger, long-established businesses that grow only at a snail’s pace, if they grow at all. Others, however, prefer to build value in their ventures and then harvest that value through a sale of the business or through listing the business so that public shareholders can participate in its fortunes. The recent sale of Skype, the voice-over-Internet-protocol telephony provider, to eBay harvested billions of value that the Skype team had created. In late 2006, the Internet phenomenon Facebook was on the market, and its founder, Mark Zuckerberg (and his top management team) had many questions to answer before deciding whether to sell his business and to whom. Here, too, there’s much to be learned.

How can I get best price? What about timing? Should I sell or should I float? If I sell, should I take someone else’s stock or insist on cash? What are the implications of being a listed company? Do I want thousands of shareholders and dozens of analysts peering over my shoulders and poring over my results each and every quarter?

These and other questions can be addressed by studying companies that have previously trodden these paths. Their answers can have material effect on the value that the entrepreneur and his or her early financiers can take to the bank as the harvest plays out.

**The path loops back**

It’s easy to draw a flow chart of the entrepreneurial life cycle, but it’s much harder to actually travel it, for the path keeps looping back on itself, even skipping a stage or two if things develop more quickly than expected. The reality is that discovering an attractive opportunity probably won’t happen on the first attempt. Assessing it may involve reshaping it and assessing it once more, or even abandoning it and looking for another. Business plans are living, breathing documents that change continuously, as market and competitive forces offer up new information and new challenges. Gathering resources never ends, nor do the
challenges of managing growth. When value is harvested, the entrepreneur may remain on board to generate further value in the future.

Thus part of learning about entrepreneurship is about learning whether entrepreneurship is right for you. The entrepreneurial path is marked by rampant ambiguity. Which customers should we target? Should the product be like this or like that? Will my people and products really deliver? How will competitors react? The challenges never end. Not everyone likes, or is comfortable with, waking up in the morning and finding that the day will not go as planned the night before. Thus, learning about the entrepreneurial path - and whether it suits one's own personality, ambitions, and capabilities - is a worthwhile endeavour regardless of the outcome.

The art and craft of entrepreneurship
We've found that a good way for entrepreneurs - whether MBA students on the London Business School campus or executives running high-growth entrepreneurial businesses – to learn is by assembling a toolkit, a set of models and frameworks with which to address the sometimes daunting intellectual challenges that entrepreneurial decision making will require as their venture passes through the various stages in the entrepreneurial life cycle. We then ask them to apply these tools to case studies of real-world entrepreneurs. In these case studies, we tell the story - half a story, actually - of a difficult decision that a real-life entrepreneur actually faced.

The story stops just at the point where the entrepreneur has the data - incomplete though it may be - at hand to make the decision. It’s the students’ job to wrestle with the decision, just as the entrepreneur under study had to do. Should I buy or sell? Develop a new product or enter a new market? Float now or wait? By learning the tools and applying them to real entrepreneurial decisions, the entrepreneur-to-be develops ways of dealing with the likely challenges he or she will face, sooner or later. Perhaps more importantly, he or she sees - and may be inspired by - role models who have travelled the entrepreneurial path before.

Learning the art and craft of entrepreneurship is important not simply for the enhancement of one’s own entrepreneurial outcomes. An abundant body of research makes clear that robust entrepreneurial climates are intimately linked to economic development, whether in emerging economies or in highly developed ones. Most of today’s new jobs are created not by large, stable multinationals, but by high growth “gazelles”, entrepreneurial companies that grow rapidly, creating new jobs in their wake. Thus, the art and craft of entrepreneurship is a noble endeavour, one worth doing well. We’re fortunate, indeed, that in this sense we can teach entrepreneurship.

Resources
Business Plan Services, http://www.bizplans.co.uk
London Business School’s Entrepreneurship Summer School, http://www.london.edu/summer_school

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