Entrepreneurship today, the trade of tomorrow

April 3, 2009

IESE's Pedro Nueno offers a practical analysis of the life cycle of a new enterprise, and the options that may emerge over the next 10 years.

"Entrepreneurs are neither born as entrepreneurs nor full of knowledge; they are people like everyone else, but have found ways to develop the necessary entrepreneurial skills."

This is how IESE Prof. Pedro Nueno sees it in *Emprendiendo hacia el 2020 (Entrepreneurship Toward 2020*), a new revised edition of his book published in 2005. Though some may learn entrepreneurial skills from their families, which gives them a head start, Nueno insists that starting companies is not something in a person's genes.

Nueno has been teaching courses on entrepreneurship at IESE Business School for more than 30 years. He pioneered his course in Europe, inspired by a program offered at the time by the late professor Richard Dooley at Harvard Business School, where Nueno himself earned his doctorate. He says that program opened his eyes to the importance of digging deeper into the art of entrepreneurship.

This art is of vital importance to the economy, says the author, since it has the potential to create both wealth and employment, even in the most adverse circumstances.

The life cycle of an enterprise

Starting an enterprise involves going through a number of key stages, which Nueno explains in turn.

©IESE Business School

Prenatal Stage. This is the starting point - the conception of a great business idea - and requires a great deal of forward planning. One must think through all the angles, taking as much time as necessary. A business plan must be drawn up, which serves as a detailed map for the journey ahead, with a precise timeline of operations. Everything that can be explicitly outlined - after making a careful forecast of the circumstances, contingencies and results - will help to resolve conflicts that may arise later on.

According to the author, starting a business requires a healthy dose of humility, honesty, sacrifice, hard work and prudence. It should not be something born out of frustration, but rather out of inspiration. The creative motivation could be to try something new, as the online travel agencies eDreams and Atrapalo did when airlines showed signs of trouble. Or it could be doing the same thing as others but in a different way: Accor hotels, for instance, designed a new service concept more attractive to the public. Or maybe it is about capitalizing on an opportunity that suddenly presents itself, which requires some experienced observation to learn how to detect such opportunities when they arise.

The Birth. An enterprise is born when the first financial transaction takes place, whether that is collecting a payment or, more likely, making one. In this regard, the book underscores the importance of the entrepreneur clearly understanding that funds at this stage must be conserved. It is during the "birth stage" that numerous decisions are made: How big will the enterprise be? In which environment will it be created? business incubators or technology parks, for example? How will it secure financing?

Subsidies, though important, can be very hard to get, the book warns. Another option is venture capital - interest-free capital provided to the new enterprise to get it up and running, with the goal of eventually seeing that investment grow in value. The ability to raise venture capital depends on the author's earlier point about having a solid business plan in place.

Postnatal Stage. Once the enterprise is viable, entrepreneurs will start to have more time. At this stage, however, they should not get too comfortable. Infancy is plagued by viruses, and one must be well equipped so as not to succumb to common maladies, such as excessive euphoria, superfluous costs, conflicts between partners or irrational diversification. Now is the time to channel energy into planning a
future strategy.

Unlike the business plan, which is more focused on initial operations, the strategic plan must make projections about the future. The strategic plan is a map, not of immediate operations, but for developing the enterprise over the long term and detailing how to achieve that.

©IESE Business School

Development Stage. "New enterprises that reach the development stage are the economic hope of our society," says Nueno. To arrive at this stage, one must have a strong team of professionals and be capable of motivating and retaining them. It is vital to plan the financial growth adequately, and create an organizational structure that allows the entrepreneur to delegate. The team must know how to adapt to the needs of each stage in the company's development cycle. To paraphrase entrepreneurship expert Neil Churchill, a high-growth enterprise that creates jobs must learn to run like a "gazelle."

Ethical considerations

The importance of ethics in business has long been known, but if recent scandals are anything to go by, appears to have been long forgotten. The book pays special attention to this subject, as the challenges surrounding entrepreneurship can pose major temptations for ambitious and struggling entrepreneurs. Removing ethics from the equation will have profound effects: on the intrinsic nature of the opportunity; the value it brings to society; the way external resources are utilized; and, above all, the entrepreneur's relationship with early collaborators. Nueno recommends that entrepreneurs reflect on the ethical aspects of what they are doing and build such considerations into the design of the business plan from the outset.

Intrapreneurship

CEOs of major companies often say they wish their employees demonstrated more entrepreneurial initiative. But, as the author explains, it may not be that employees lack initiative, but rather that the corporate culture or upper management does not actively encourage it. Nueno issues a challenge to company heads, that they have "no alternative other than to stimulate a bit of entrepreneurship" inside their organizations.

Of course, this requires that managers foster the fertile conditions for internal entrepreneurs to emerge. And as difficult as it may be to change the corporate culture, Nueno cites several success stories to prove that it can be done. Soluziona, a consulting firm spawned by the utility company Unión Fenosa, shows that "intrapreneurship" is a worthwhile endeavor indeed.

©IESE Business School