



Podcast Episode #39 – Brain vs Capital - how to build a business from components (Part 2), with Prof. Günter Faltin, Germany

RAW TRANSCRIPT OF INTERVIEW

Balint: I would have some other questions, which is that you mention in the book, there's a distinction that you make between a person who is an entrepreneur and a person who has an MBA and who is a managerial type. How would you describe this?

Prof. Faltin: Yeah. I think these are two quite different qualifications. Business administration is...If you, yeah, somehow exaggerate but to make the point clear business administration is about efficiency, it's about organizing processes, it's about motivating people, it's about, let's put it like this, keeping order, keeping efficiency. Entrepreneurship is about creating a good business model and creating a good business model, you need to overcome conventions, you need to overcome traditional views.

And I compare it more to an artist. For me, the entrepreneur, if he is for disruptive innovation, not if he's for imitation or doing something as an ordinary business but if he is in for innovation, for disruptive innovation, he has to approach the whole thing of entrepreneurship with different eyes, with a different mindset. He is more what Joseph Schumpeter has called destructive creation. He is more like an artist. I compare the entrepreneur to an artist. In entrepreneurship it's more about chaos, it's about trying out new ideas, trying out new concepts. And usually, the people don't like each other. The one who creates chaos, who tries to overcome the old business model and try something out new is against keeping order. So these two qualifications are somehow pit against each other.

So quite often the entrepreneur and the business administrator get into trouble because they don't understand it that behind them is personalities, behind them is two different functions and these functions do not go together well but they have to be done well. So it needs understanding from the side of the entrepreneur that you need somebody for business administration but business administration alone isn't thinking that helps you for destructive innovation. So somehow we have to understand that entrepreneurship creating the business model, and business administration it's not the same, should not be mixed up and we should understand that it needs two different mindsets and two different qualifications.



Balint: So the MBA person and the entrepreneur type they don't like each other but they should work together because this is how they can bring together a business. So at the beginning the entrepreneur is more active and later on the MBA person, right?

Prof. Faltin: At least they should understand that it is not the same. Most people mix it up and think entrepreneurship and business administration is the same. Of course, you can make a few courses in entrepreneurship and usually this is nowadays included in an MBA course but the one is more the composer, it's more the artist and the other one is more keeping order, if you simplify for it. And it makes us understand the two functions better. Of course, some people can do both. But most people that I have got to know are not capable of really doing both in the same quality. So it's good to see that it's two different functions.

Balint: We talked quite a bit about business model and business in general. What do you think about the business plans? So now it's still important, very important to have a business plan, especially when you need to pitch to investors. So, how much should a business be summarized in a business plan and what would be the ideal business plan in your eyes?

Prof. Faltin: If you need financing and you have people who believe in business plans, you have to write a business plan, yes. And it's certainly helpful to get somehow an order in your thoughts and for most people it's helpful to write it down because they will see deficiencies or what is lacking and so on. That is one thing.

Another thing is that business plan can be dangerous because basically a business plan is a bunch of assumptions, it's assumptions that your product will be accepted in the market, that the price of your product will be accepted, that the design of your product will be accepted, that the way how you distribute will be accepted and so on. So a business plan is nothing else but assumptions and that is dangerous because the moment people write it down, they somehow start to believe in their own words and assumptions and people at the bank or wherever you get your financing they also try to say, "Oh, it's in the plan. Is the plan fulfilled? Are we in line with the steps of the plan, with the milestones?"

And that is dangerous because quite often it works out that your assumptions are wrong. There is a study here in Germany that says 70 percent of assumptions in business plans are wrong. So what to do with that? You have to change, you have to adapt the business model. You have to learn from the market and not to stick to your business plan.

As far as I know, the idea of the business plan is from a professor at Babson and I met him once and he said, "The moment the business plan leaves the printer, it's



outdated.” And if you have a customer, better talk to the customer and stop writing the business plan and understand the customer and adjust your assumptions. That is the point. You have to check your business model, you have to make the proof of concept. You have to go out and talk to customers. And in so far, the business plan is a bit of a conventional view. It’s a bit of a...Yeah, I go to the bank and I put on my suit and necktie, and make a pitch and try to convince the financing institution of my business model. It looks to me a bit outdated, a bit out-fashioned. I would suggest to much more put the focus on adapting the business model.

Balint: Another quote that comes to my mind is by Eisenhower and he said that, “A plan is useless but planning is indispensable.”

Prof. Faltin: That's a good quote. I like it and that's why I use it because it says of course, you have to make planning. You have to get order in your thoughts and you have to somehow work on your ideas, you have to plan and then you have to check and mostly the plan is not the one that fulfills or goes well with reality or you have to change the plan. But planning is alright, but sticking to a fixed plan is not alright. So I think this quote of Eisenhower puts it quite well.

Balint: You teach entrepreneurship in Germany. And what would you highlight in your teaching that is important for turning average people into entrepreneurs? Because what I see is that a lot of people want to get an MBA and they follow the classical career path that they work for companies in a very well structured manner but this creates just some other such people who just follow certain processes and rules and this is in opposition to what an entrepreneur does, as you mentioned it. So how do you teach? What would you highlight in your teaching?

Prof. Faltin: Well, for me as a teacher, as a university professor and university professors are highly privileged in Germany. It's something that you have the duty to get as many people interested in entrepreneurship as possible. I think a lot more people have the brains for entrepreneurship than it is the practice now. So my basic idea in teaching is entrepreneurship for the many not for the few only. How can be broadened the access, the understanding for entrepreneurship so that many more people seize a chance, seize the opportunities? That is my basics.

And that is why I try to teach entrepreneurship in a way that you can compare with education hundred years ago. At that time, education was for a few people only, you had to have rich parents, you had to have parents open-minded to the value of education and so on. But education was for a minority and mostly men, not women. So to open the field, to broaden the access that is my main task, as I see it.

Balint: Your main mission.



Prof. Faltin: My main mission. And of course you can do entrepreneurship, you can get into entrepreneurship from many angles, in many ways. Of course, with a lot of capital, of course with a lot of business administration that you say it's execution that matters. Yes, you can approach it from that angle.

But basically, for me entrepreneurship is to go for a better world, to go for better economics, to go for better products, make it cheaper like Henry Ford did with cars. So if you have that focus, it's different. So I'm not so much in how to finance the startup but how to create the business model because everybody has a brain and our brains are underused. So use your brain more efficiently and before you go for financing and create a business model that needs as little financing as possible, and go for components, and go for scaling with components that all fits together to a kind of school of thinking that says avoid to make the capital the bottleneck, avoid to make business administration the bottleneck. Because we have a lot of people that have MBAs so cooperate, use them, go together. And it also makes the job to be an entrepreneur much more efficient and much more desirable.

Balint: During this interview we talked about outsourcing that it's one of the ways to work with components, with this component principal. And there was a question by one of the listeners in preparation for this interview which was that in an expensive country like Switzerland, but it can be also true for example in Singapore or the U.S., outsourcing for some fields doesn't work so well where you have to manufacture, create physical products, where you have to be on site. And what tips would you have? What is the solution? So, especially in expensive countries.

Prof. Faltin: The solution for me is professionalism. You need professionals because those who look at a company from outside they do not see the details. They do not see what connects to what else. They do not see the interfaces. So you need really highly professional people in that field that see the interfaces and say, "Yes, of course, if you outsource accounting, you need an interface to use as a stock keeping, you need an interface to your logistics, you need an interface to your text consultant and so on. Professional people know that. If you have nonprofessionals, they may miss these points and later you find out chaos, a lot of things have gone wrong and have to be done again.

So the key to the components principal is working with professionals. Yes, you're right. Professionals can be expensive and usually they are expensive, not only in Switzerland or Germany. They are expensive and they have the right to be expensive, if they are really good, high qualified to do such a thing, to meet all the interfaces. And they know the necessarily connection that you have to do, they know where to put the interface and that is the answer.



If professionals are too expensive for you, my answer is your business model is not good enough. A good business model must provide a margin to pay for expensive professionals. If that's not the case my advice would be go on working on your business model, make it better, try more unique selling propositions, one is not enough and so on. I think the answer cannot be, "Work unprofessionally, work by yourself or work by your friends or some students that are cheap that you can employ them." It's not going to be successful. My theory after 30 years in the field is go with professionals and you have to pay them and you have to create a business model that can afford to work with professionals.

Balint: Mistakes. I ask it from my guests always this question because I think it allows us to learn from other people's mistakes. So you had the Teekampagne, the Tea Campaign company and you've mentored other startups, different startups. What kind of mistakes would you highlight?

Prof. Faltin: Basically it's about accessing knowledge. If you decide you go for one idea, you go for one concept, then you have to collect all the knowledge that is available by all means. And my experience is that people quite often believe that they have a concept already or the concept is strong enough to succeed in the marketplace. Usually, the chances, the opportunities that go with collecting more knowledge, accessing more knowledge are lost. So I don't talk easily about mistakes. I talk about how to empower yourself with all the possibilities that you have.

Balint: Because you have to put together the puzzle in the end when you want to create a company, which is basically knowledge.

Prof. Faltin: Yes. That is my concept. The German word Gesamtkunstwerk, a kind of piece of art that stands on many pillars steady. That is my conviction, that this is most helpful for people who don't want to run after financing and be dependent from those who finance them or good managers so they can depend on good execution. Mostly people don't be so competent in these fields. So what is the chance is to create a really good concept, a convincing concept.

Balint: I remember that you also mentioned in your book that an idea has to have multiple feet, multiple legs so that it stands stable.

Prof. Faltin: If somebody comes who is one USP only, I think that's not enough. You have to have a number of real advantages over your competitors that makes a good start.

Balint: Yeah. We talked about it that you teach entrepreneurship and you believe that entrepreneurship is very good for the society and also for the individual person. How do you see how entrepreneurship, this field can influence individuals? So, picking up skills, things like that.



Prof. Faltin: In my experience entrepreneurship is even a way of personal development, it's a method that helps tremendously in personal development. The moment people focus on one idea, they become more like researchers. They become centered in life, they are not going so easily for all the nonsense that young people usually involve with. And they get social skills and they get a qualification how to ask questions, how to formulate good questions.

That is something that helps in personal development. There is no better way in my experience than this. Not psychoanalysis or all these methods but entrepreneurship done in a way of research, done in a way of putting it into practice with all the skills that are necessary has a side effect, and a very potent side effect for personal development of these individuals.

Balint: Yeah. It reminds me of one of my past interviews, actually two interviews that I had with Josh Spodek from NYU, from New York. He's also a professor but at NYU and he's an advocate of project based learning. So when you are given a task and you have to work on it, it's much better than having a book in front of you and just reading the theory.

Prof. Faltin: That if you look at it from the angle of pedagogy. But entrepreneurship is much more. That is not a learning exercise, it's a very existential exercise and you have to survive. You want to succeed. So that is much more than what I can do in a university class.

Balint: I like that you brought it up, you emphasized this because many times I think people who look at entrepreneurship taught at universities or as part of the MBA program they think that it's not as valuable as when somebody actually does it for existential reasons. That's when you really learn.

Prof. Faltin: Then even learning becomes much more intensive and complete. But it's more than a learning process, it's something that goes deeply into your personal development.

Balint: I would like to now move on to the last round of questions. This is the ultrafast round. So I would ask four questions and it'd be great to get the short answers to these. So first question, if you could go back in time to the time when you were in your 20s, what notes would you give yourself?

Prof. Faltin: Start as an entrepreneur first and become a professor second because successful entrepreneurship gives you financial independence. You are not dependent on the majority of people, of making friends and you can have your own opinion. As Benjamin Franklin has said in the Age of Enlightenment, his sentence was, "An empty sack cannot stand upright." I think that's a good sentence, an empty sack cannot stand upright. So financial independence first and as a successful entrepreneur



you have good chances that you are invited to university to teach. So become an entrepreneur first would be my advice to myself if I had a second chance or to others.

Balint: So an empty sack or an empty bag cannot stand on itself alone, right?

Prof. Faltin: Yeah, yeah.

Balint: Yeah. OK. The second question, if you had to name a book, which one had the biggest impact on your entrepreneurial thinking and on your career?

Prof. Faltin: You may laugh about it but when I was 14 I read Joseph Schumpeter and I was very much impressed and he is easy to understand compared to other economic books, and this idea of creative destruction hit me. Creative destruction today would be translated in the meaning like disruptive innovation. But to look at economics and look at the real world of economics and see that you can make it better, I was always believing that on the way to become an adult person something must happen that ruins the imagination and the will to change and to make a better world. So Schumpeter was something that struck me because of this idea as an economist, as an entrepreneur you can do creative destruction.

Balint: I know that in your book it comes up multiple times. And also I see it in other books. So yeah, he is....

Prof. Faltin: He is the father of entrepreneurship. He is really the most important, he has done the fundamentals on entrepreneurship.

Balint: So the third question. I'm amazed by habits and routines. What kind of a daily habit do you have?

Prof. Faltin: I learned that I am best, my thinking is best, has most clarity after waking up and I try to preserve some time in bed when I wake up because then the problems that I'm doing with are quite clear and I have a chance for about half an hour or so to get it in more clarity than during the daily routines.

Balint: I agree. I also feel it in a similar way. During the night my mind calms down and in the morning I either sometimes I even come up with solutions or following the 80:20 rule, I see more where I should concentrate on. And I try to write it down in the morning in a journal or, yeah, I have a five-minute journal or I have a longer journal, longer format as well, or like just dumping my ideas in my mind and then later I can pick up that information which I put down on paper.

So the last question is that in your work because you travel quite a bit, I mean soon you're going to Thailand, what kind of cultural differences have you seen that struck you and that you could overcome?



Prof. Faltin: Yes, first of all, I see a difference between continental Europe and the U.S. in terms of entrepreneurship. And in Europe, we are more with ideas. We are more with history, with art history, with breakthrough ideas like Leonardo Da Vinci and things like that. So I feel entrepreneurship in Europe has a chance to be close to art. You can say entrepreneurship is an art. There's an art in the science of entrepreneurship. But there's also an art of entrepreneurship. In Asia it's different. In Asia, you don't have all these prejudices against profits and becoming rich and so on.

So it's more easy to say, "Oh, yes, start a company and take the opportunity to become rich." In Germany or France or Italy you would immediately get some skeptical remarks. But to be open for a happy life, for financially successful life seems to be more easy in Asian countries. Asia is a huge complex, so complex, a variety of societies, but in the countries that I visited, mostly Southeast Asia, Malaysia, Philippines, Thailand, Laos, Burma, not so much India, India is a different culture. But there are cultures where it's easier to do entrepreneurship than in Europe, in continental Europe.

Balint: I remember that reading an article on this that the top 10 most entrepreneurial countries, one of them is or a few of them are actually in Asia, like Vietnam or also Thailand. I mean you see a lot of entrepreneurs, even on the street selling food, for example.

So to wrap up this interview, what would be the best way for the listeners to reach you - via e-mail or even social media?

Prof. Faltin: The problem is that I have a lot of people who contact me and so I am I'm sorry for that but I cannot answer most of the emails. What I suggest, we have a few formats that is helpful for the situation. That is our summit, first of all. We have yearly Summit for Entrepreneurship in Berlin with about one thousand to twelve hundred people. And this is a good place to exchange ideas, get my ideas, get to people that grew up in my field of entrepreneurship and that is the kind of contact that I would recommend. Next one is in October, 21st - 22nd of October, at the Free University of Berlin. It's a summit that has been there for about 15 years. Muhammad Yunus from Bangladesh was with us two times, or Frithjof Bergmann or Hernando de Soto and a lot of really interesting people. So that is the way to get all the knowledge that you need.

Of course, we do other kind of exercises like Laboratory of Entrepreneurship or lectures or so on. And we even have a course for one year, stretching over one year, which would help gain all the knowledge and methods and techniques to create your own idea, your own brainchild. I like to talk about brainchildren, particularly for males, that you can create your own child, but it's a brainchild, a way of creating a concept Gesamtkunstwerk is really putting a brainchild into the economic world.



Balint: What is the website where people can maybe follow you or even of the Entrepreneurship Summit?

Prof. Faltin: It's www.entrepreneurship.de and continue to go to summit. But we have the entrepreneurship.de URL for Germany because we were the first ones in entrepreneurship. So that is a way to get the information about all our exercises in entrepreneurship.

Balint: Or the activities. All right. So I very much appreciate this interview with you, Professor Faltin. I enjoyed it very much and I hope the listeners also enjoyed learning. I think I got a lot of nuggets of information, even things, even topics that didn't come up as much in your book, for example about outsourcing or also about what you think more about entrepreneurship and what kind of impact it can have on the other person. So thank you again.

Prof. Faltin: I enjoyed the interview. Thank you, too.