# It’s Time to Separate Managers From Entrepreneurs

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Starting a new business is hardly an ordered process, and there is no checklist or manual to follow. Rather, it is a jumble of disparate tasks, not to mention digging in to stay afloat and constantly putting out fires wherever they may emerge. So it is safe to say an entrepreneur needs to be prepared for pretty much anything and must be able to handle it well. In some sense, every entrepreneur must be a jack-of-all-trades, a generalist rather than specialist. A lack of weaknesses is better than a specific expertise.

Among the things every entrepreneur must juggle is management of production, internal routines and processes, customer relations and personnel. Yet there is sound entrepreneurship theory that separates the two; entrepreneur and manager are not the same. Ludwig von Mises, a famous 20th century economist, even states that “a manager is a junior partner of the entrepreneur.”

There is good reason for separating entrepreneurs and managers, even though it may seem crazy at first. Entrepreneurs and managers are not necessarily different people – especially in the startup phase – but different roles with different objectives. These objectives should be kept separate, and it helps to recognize the difference when juggling the everyday tasks of running a small or growing business.

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# Entrepreneurship is about value

The role of the entrepreneur, simply put, is to create value for the customer. While this is easier said than done, it places value first and cost second. This is of fundamental importance. Without value, any cost assumed by the business is not only unnecessary but can only lead to failure. The guiding light for entrepreneurial decision-making should thus be what benefits the customer.

With the entrepreneur as primarily a value creator, entrepreneurship theory prescribes that focus should not be on minimizing costs. It doesn't mean you should disregard how much money is leaving the company, but it means the value created justifies the cost. You choose costs with value creation in mind. If costs do not contribute to value, stay away. But if your customer benefits, then go for it. Don't waste lots of time trying to minimize that cost. The entrepreneur's role is to figure out value for the customer.

# Management is about cost

As soon as value has been created and thus the business opportunity has been established, it is time to shift gears and put on the manager's hat. While somewhat simplified, the proper role for the entrepreneur is to identify and create the value of the business. After that, the manager gets to work to maximize the outcome (yes, profit) from that opportunity.

As the value of the product has already determined, what remains is to focus on cost. The lower you can get the cost without impacting the benefit for the customer, the greater your profit!

# Applying theory in your startup

Theory can seem hopelessly abstract for the doer-entrepreneur, but the insights should not be overlooked. While it is often (unfortunately) mired in jargon, theory is simply our formalized knowledge accumulated over the years, decades and centuries. This wisdom should be considered in any entrepreneur's bag of tricks as a way to avoid making mistakes.

One simple way of applying theory in your startup is to think in terms of roles. The distinction between entrepreneur as value creator and manager as cost-cutter is an insight that can be surprisingly useful. It directs focus to where you should find an effective solution. When an issue requires your attention, ask yourself:

**1.** Is this related to figuring out and determining our value proposition, the benefit to the customer? If the answer is yes, then it is entrepreneurship. Thus, your focus should be on the customer's benefit. Do not let costs get in the way of imagining what value is possible. Keeping costs down should come second.

**2.** Or is it about how you provide the value you have already discovered (and perhaps have even sold)? Then it is about management, and the task is not to figure out how to create new value for the customer, but how your business can gain from its value creation. Accept the costs necessary for the customer experience. Try to cut everything else.

One is directed outward and imagines what the business can do, i.e. how you can create value for your customer. This is an exercise you should do before starting your business, to find the niche and pick the best business model, but that that should be revisited regularly to renew the business. If you let cost-based thinking get in the way of developing ideas for value creation, the live (and value) of the business is

severely circumscribed. As a result, both you, the stakeholders of your business, and your customers lose as a result.

The other is directed inward and takes the customer value as a given, i.e. how can that value be created at lesser expense? These are decisions relating to production management and how to extend the product's lifecycle. Selling prices are rather fixed, so the variable to focus on is cost of production. Minimize the cost, but do so without reducing the value produced. Give the customer what they value, at a price they are willing to pay, but with higher margins.

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Nothing in the business is likely to be only one and not the other. The real world is not black-or-white. But it helps to apply a framework to approach each issue in the right way. Most issues you encounter in your startup are more about the one than about the other, which means you are better off treating it as such. But to realize this, you first have to think about it the right way, and that's where theory can be of help identifying the important questions.

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