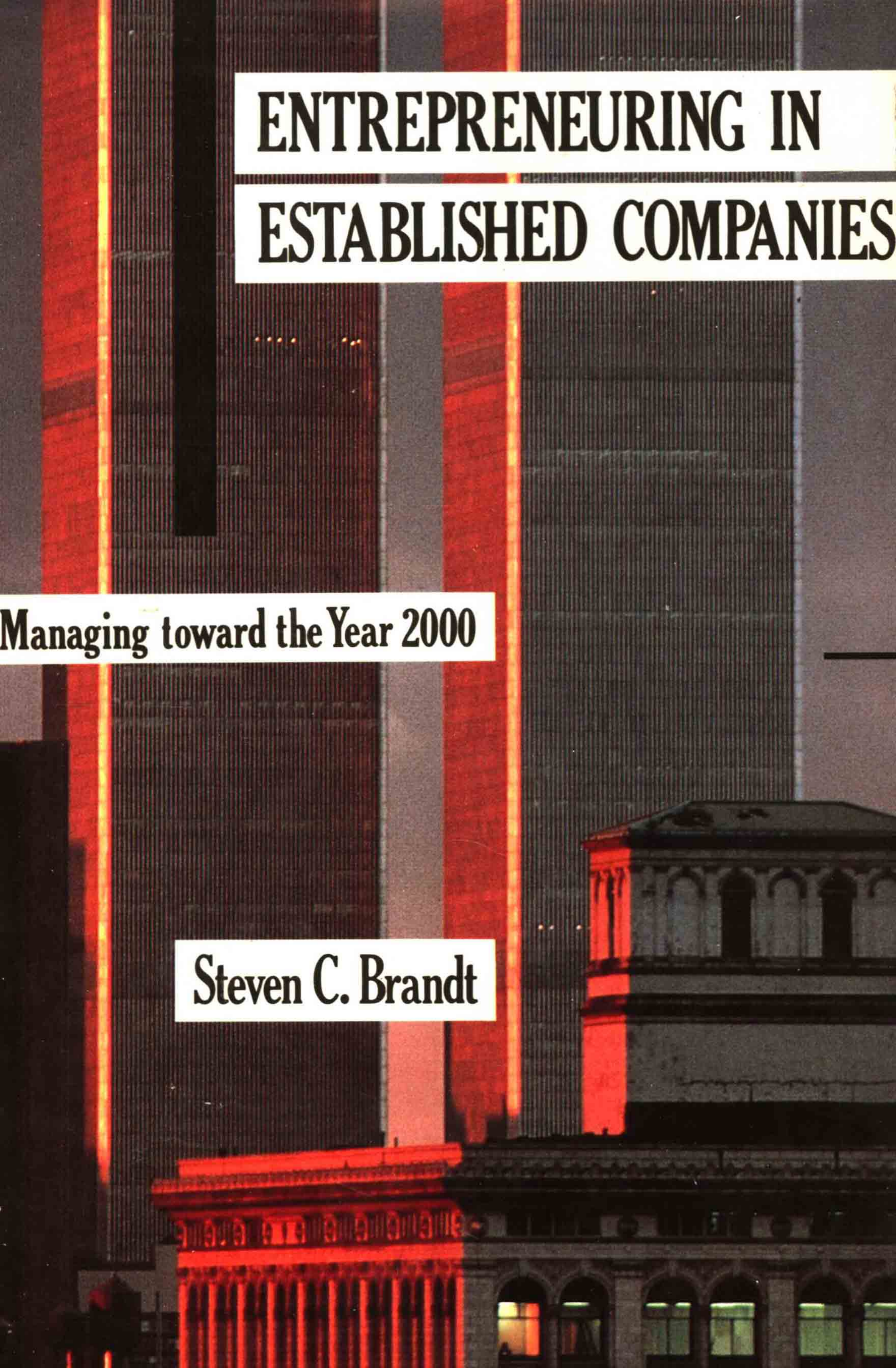
ENTREPRENEURING IN ESTABLISHED COMPANIES

Managing toward the Year 2000

Steven C. Brandt



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Managing toward the Year 2000

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To my wife, Wooly, and the fresh wave of corporate entrepreneurs of all ages who are starting to break onto the establishment beaches of the world.

Introduction

This book is written to be used. It reflects a growing awareness that traditional garage entrepreneurs and venture capitalists and high-technology whiz kids in emerging companies cannot alone produce a healthy economy and a gratifying worklife. The future, in business, will go to established companies of all shapes and sizes as well—*the ones that adapt.* Staying in the game means playing by the rules. And the rules are changing in important, discontinuous ways. All of us who manage now know from direct experience that economic viability is a moving target. This book is about what it takes to keep on hitting the bulls-eye in what social-trend researcher, Daniel Yankelovich, calls, "... A world turned upside down."

In May 1984, *Fortune* magazine in a cover article labeled the 1973–84 period, "The Ten Years That Shook the Fortune 500." The statistics support that label. Sales, earnings, returns, jobs—the composite curves for our largest companies plateau and drop over the decade. Why did this happen when other teams in the league, i.e., other companies in other countries, kept on winning over the same period? The answer is, of course, complex. Enough has been written about the web of economic, political, technological, and social forces at work in our world. Not enough has been written about our aging management practices—the ways in which we organize, train, plan, lead, motivate, budget, promote, and so forth. Robert Hayes and William Abernathy raised the corner of the tent for a swift peek in a provocative 1980 *Harvard Business Review* article, "Managing Our Way to Economic Decline." It is time for a more complete look.

The fact of the matter is that many, many of us in positions of management responsibility are managerially obsolete. We preside over decisions that depend on technologies we only half understand. We manage by objectives in organizations that can only be managed by consent. We weigh capital investment issues to four decimal places and depend on focus groups to delineate our markets. We preach the virtues of leadership, quality, and dedication but cut corners to make our quarterly numbers. We are unsure of just what entrepreneurs are . . . and who they are in our own enterprises. We worry about making big mistakes instead of big breakthroughs. We actually do want to do good while doing well, but we are not sure exactly what the words mean today—digital managers in an analog world. We unknowingly resist in a thousand ways the reorientation in our thinking necessary to move our enterprises into alignment with reality. The resistance is natural; you and I got to where we are by moving along a certain set of rails of our own unique design. It's tough to shift to roller skates for the next segment. It appears easier to bet on "technology" to keep our firms vital. That bet, done alone, is a bad one. Technology may be necessary, but it will rarely be sufficient to make a company a continuing winner as we wrap up the 20th century.

In two earlier books, *Entrepreneuring* and *Strategic Planning in Emerging Companies*, I attempted to distill the best from academia and the real world into some workable, usable ideas. My intent is the same here. Right now, from towns and cities to the Congress and the media, startup ventures, innovation centers, and young enterprises are in vogue. Newly minted entrepreneurs have become national heros; venture investors are now accepted members of the establishment; sweat equity and seed capital seem to be more hallowed than church; and MBA courses on new enterprise management are overflowing with men and women seeking the fast lane with the satisfying scenery. Small biz is in. But the reality is that ten thousand successful start-ups a year will, in aggregate, neither budge the balance-of-payments deficit nor have a perceptible impact on youth unemployment, U.S. productivity, or world peace. There is a limit to what chocolate chip cookie and microcomputer software companies can do. Only the established businesses that together constitute the country's core can make the necessary, sustainable difference . . . in a world turned upside down. To do so, they must become more entrepreneurial *in the broad, adaptive sense of the word.* To become more entrepreneurial, our aging management practices must grow to fit these times.

Steven C. Brandt

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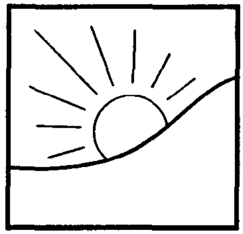
PART ONE

In Part One, the reader is invited to quickly solidify a framework of understanding on why managers and executives tend to do what they do as they pilot their respective charters through the agitated waters of the late 1900s. From the analysis, action guidelines emerge for practices to tap deeper into people's potential for new ideas and for committing themselves to winning as part of a tough-minded business enterprise. Part One contains the notes for the music that follows.

In Part Two, the reader is asked to consider specific suggestions on what it takes to retain or regain productive, entrepreneurial behavior across the mainstream population of a going concern.

Chapter One

Perspective



Entrepreneuring has an aura about it. The word implies a host of desirable attributes like innovation, creativity, flexibility, and sensitivity to customers. If a company has the attributes, an important management challenge is to keep them as the enterprise grows larger and more complex. If management has let the attributes atrophy over time, a high-priority management task is to get them back . . . to "fix the culture" as it is currently called. In either case, perspective is helpful on what has happened to companies as the business world along with the country have matured since World War II. Without such perspective, there is great tendency to try to put new wine in old bottles.

MAJOR ERAS

On the following page is a bird's-eye view of the major eras of business development over the past 100 or so years.

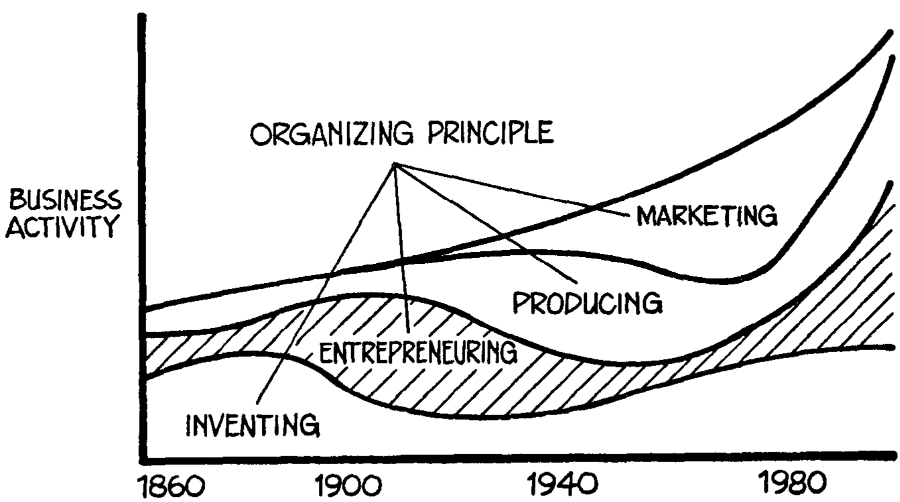
The mid- and late 1800s were a time of explosive development in the United States. A series of basic inventions—breakthroughs in technology—fueled an innovation revolution to sit atop the industrial revolution of 100 years earlier. There was certainly business activity before the mechanical miracles of the industrial revolution. A wage system was used by profit-making enterprises in the Roman Empire; accounting was highly developed by the Italians in the 15th century; insurance was used by Dutch business enterprises in the 16th century; and the Bank of England was formed in 1694.[1] But this early business activity did little to leverage human potential—mental or physical. The industrial revolution gave the

Americans in their 30s and 40s are old enough to have experienced the dominant culture of the post–World War II era . . . and yet young enough to have received, full blast, the new cultural meanings.

DANIEL YANKELOVICH, *NEW RULES*

world power-driven machines and, thereby, cracked open the door of opportunity to thousands of latent entrepreneurs—people who could commercialize ideas. Then the first *innovation* revolution brought forth electricity, flight, internal combustion engines, and other rousing ventures that truly unleashed the Entrepreneuring Era depicted below.

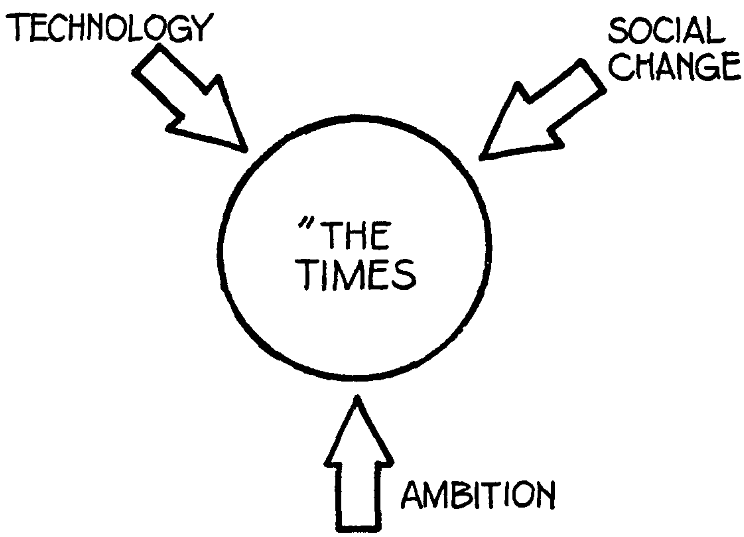
The advent of technological invention in the late 1800s iterated with progress along another dimension—the social invention and acceptance of the corporation. The corporate form of organization for human endeavor facilitated the purposeful pooling of talent and capital. The com-



Major Eras of Business Development

bination of technology (electrical/mechanical), social form (corporation), and evolutionary, instinctual ambition (entrepreneurs) produced the surge in the flow of human events that cascaded into America, and later into other countries, culminating in the 20th century that business leaders know today. The figure that follows depicts the elements involved. *This exact same concurrent meeting of forces is reappearing as society approaches the 21st century.* As Peter Drucker notes in his book, *Managing in Turbulent Times*, between 1856 and 1914, "a new invention, leading almost immediately to a new industry, was made on average every 14 to 18 months." He goes on to observe that "between 1947 and 1975, only two truly new industries emerged: computers and systemic drugs." And, most important for the purpose of perspective, he speculates that "The next 20 or 25 years are almost certain to be more akin to the years before 1914 than to those between 1947 and 1975."[2]

By the early 1900s, an economic and communications infrastructure was in place. Railroads and telegraph poles and waterways tied the U.S. common market together. More and more people wanted a piece of the progress. The management challenge was to become efficient in the production of goods and services—and particularly goods. Henry Ford's dictum to (mass) produce cars at a low unit cost so everyone could have one captures the spirit of the Producing Era. If the price was right, an item could be sold. There was little marketing, only selling. Each industry had plenty of its own, very green grass to chew. Executives, managers, and



A Concurrent Meeting of Forces

employees of that era were "in" steel or autos or packing or rubber. "Do more of what you do, better" represented the primary mode of thinking for those at work in the rapidly growing cities. An introspective industry and production orientation dominated the business scene even in the most progressive companies.

Carl Sandburg's famous poem, "Chicago," published in 1916, gives a glimpse of and feel for those times:

> Hog Butcher for the World, Tool Maker, Stacker of Wheat, Player with Railroads and the Nation's Freight Handler; Stormy, husky, brawling, City of the Big Shoulders . . . [3]

Following World War II, progressive management teams inaugurated a third era in the 100-year period under review. Competitive success in those halcyon days was no longer purely a function of manufacturing efficiency; increasingly, product differentiation grew in importance. While General Motors had introduced the notion of a market—rather than a production—orientation in the 1930s, the concept was not widely adopted even in the early 1960s. Ted Levitt's famous article, "Marketing Myopia," was published in the summer of 1960. It remains a classic and one of the all-time best-selling reprints from the *Harvard Business Review*. The opening paragraph still rings true:

> Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Others which are thought of as seasoned growth industries have actually stopped growing. In every case the reason growth is threatened, slowed, or stopped is not because the market is saturated. *It is because there has been a failure of management.* (Emphasis added.)[4]

The Marketing Era of the mid-1900s period coincided with, and no doubt contributed to, the growing affluence of the population. Incremental product changes, cosmetic differentiation, fancy packaging, and merchandising represented the arsenal that was aimed at smaller and smaller market segments. In many respects, management teams faced linear problems: Find new holes and fill them. Use energy (fossil fuel) and intensive capital improvements to keep unit costs in line with the other domestic competitors. Nourish the historic hands-off attitude that characterized business-government and, as a practical matter, business-society relations. In short, use yesterday as a guide to tomorrow. This formula worked well deep into the 60s; then modern times began.

It is not necessary for the purposes of this book to recount the many causes and characteristics of what has variously been called the Age of Discontinuity (Peter Drucker); the Postindustrial Era (Daniel Bell); the

Affluent Society (John K. Galbraith); and The Third Wave (Alvin Toffler). Whatever the causes, the cumulative net effect has been and is one of turbulence and unpredictability. Most important, the business challenges are truly new; they are not readily or adequately met using approaches that worked in the past. And just as managers at all levels resisted (and resist) the shift from a production to a marketing focus, many managers will (and do) resist the inevitable shift from a functional, production/marketing orientation to an innovation orientation. It is, once again, natural to deny reality when it is strange. Any alteration in a success pattern introduces uncertainties, threatens power structures, and muddles turf boundaries for the incumbents. But new skills and practices *are* required. Most managers can accept this notion intellectually. The trick is to reduce the strangeness, the ambiguity, and the threat to moving on and altering habits. An understanding of the old practices and the new realities can help individuals digest the unknowns and build the bridges to the needed new approaches to managing enterprises. "Discontent is the first step in the progress of a man or a nation," according to Oscar Wilde.

NEW VALUES

In a pioneering, 1983 report entitled, *Work and Human Values: An International Report on Jobs in the 1980s and 1990s*, a task force of authors from the Aspen Institute for Humanistic Studies and the Public Agenda Foundation crystallized these findings:

- The advanced industrial democracies can compete most effectively in those areas that require a highly skilled and trained labor force.
- The Japanese experience has called attention to how greatly productive power can be enhanced when human dedication is added to the mix.
- Millions of young people are ready to give the workplace a great burst of energy and dynamism—if jobs can be designed to meet their new expressive values.
- Many current managerial practices in the United States tend to discourage rather than to reward work-ethic behavior.
- Technology has historically favored large-scale operations. But much of the new technology is shifting the balance to favor small-scale, decentralized operations.
- Management practices have not kept pace with the changes in both the nature of work and in the values that people bring to their jobs.[5]

In effect, the social scientists came to the same conclusions in their report that both perceptive economists and thoughtful, practicing executives have, namely, that there is a phase shift behind the current turbulence, not just an aggravated economic cycle.

So what? So it is time to bite the bullet and accelerate the growth of fresh ways of doing things in all parts of existing companies, not just in product development. Intellectual jousting in search of excellence is no longer good enough. Neither are well intended, older measures: more money for R&D; encouraging product champions; building a little flexibility into the compensation scheme; setting up a small pool of venture capital; and so forth. These actions together might raise the average entrepreneurial output in an established company a few percent—at best. What the times call for are actions that make a 30 or 40 percent dent in the challenge. To get that sort of a return between now and the turn of the century means managers have to update all those everyday practices that have an impact on the mainstream of their companies—on the warehouse people and the engineers and the sales force and the accounting staff and the tellers.

CONCLUSION

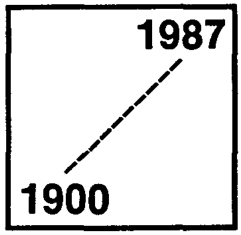
Aesop observed that "It is easy to be brave from a safe distance." The safe distance for many responsible people is the buffer that comes from the fact that what they are doing today has a long and enviable record of working. That buffer generates inertia. It is time to be brave up close. And to be brave mostly means to experiment with the day-to-day activities that constitute managing in the new order of things.

> There is nothing more difficult to take in hand, more perilous to conduct, than to take a lead in the introduction of a new order of things, because the innovation has for enemies all those who have done well under the old conditions and lukewarm defenders in those who may do well under the new.
>
> MACHIAVELLI, *THE PRINCE*

Perspective on the eras, forces, values, and truly pivotal challenges facing those in established businesses can be helpful in making those challenges inviting. For, "It's what you learn after you know it all that counts."[6]

Chapter Two

Managing Practices— Yesterday and Today



The innovation revolution—inventing, entrepreneuring, producing—brought a whole new set of people into the world of commerce. They came off the farm, across the oceans, and out of the mines into the limelight of material progress. Their involvement coalesced into the modern corporation with its myriad of practices for getting work done through others, the classic definition of what managing is all about. Those practices have evolved over the last century with the growth in size and complexity of companies. In this chapter the reader will find diagrams and descriptions of the increasing levels of sophistication in three of the four major areas of managing practices: Organizing (activities and relationships); Planning (for the days ahead); and Controlling (what is going on). Leading, the fourth, classic subtopic of managing, will be handled separately in Chapter Eleven; it is the one area of managing practices that has atrophied over the years. The reader's understanding of just where his or her enterprise is at present in terms of organizing, planning, and controlling can pave the way for actually doing more about encouraging widespread, internal entrepreneuring in the years ahead.

ORGANIZING

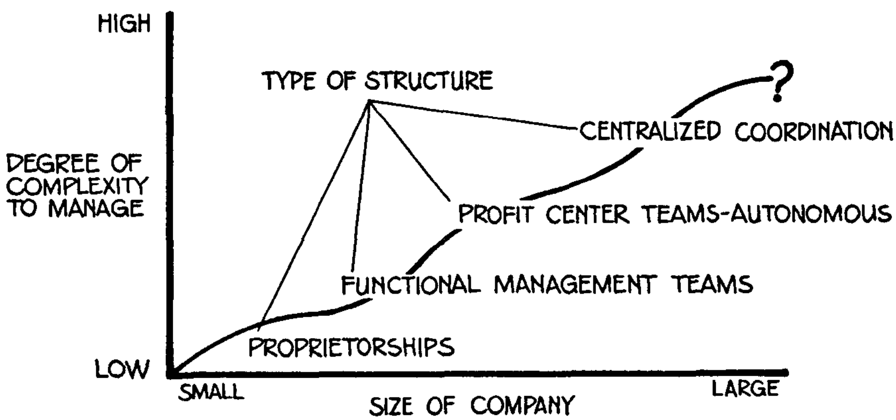
Every established company today was once a growth company. Most started with a flat, family structure. For example, Ford Motor Company and General Motors were essentially proprietorships during their formative years. And both companies encountered crippling difficulties when they outgrew their proprietors (Henry Ford and William C. Durant) and

Slide rules are vanishing, victims of a calculator/computer world. Keuffel & Esser Co., once a major slide rule manufacturer, has sold three in the past three years. A group of 60 students was shown a slide rule recently; 45 didn't know what it was.

USA TODAY, MARCH 7, 1985

their associated structures. Since the early part of this century, most major enterprises have marched along the management practices road to more and more complicated ways of organizing human endeavor.

The next figure illustrates the march. The state of the art today is a company with autonomous profit centers. Each profit center serves a unique set of markets with a unique set of products and/or services, i.e., the various profit centers are in different businesses. The efforts of the collection of profit centers is coordinated by a headquarters in some way. Until recently, the coordination was done primarily by staff people with financial and/or planning skills. More recently, the emphasis is shifting



Evolution of Organizing Practices