

# The heart of entrepreneurship

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*An X ray of the  
entrepreneurial organization  
reveals these  
dynamic characteristics:  
encouragement of individuals'  
imagination, flexibility,  
and a willingness to  
accept risks*

*"It's much easier and safer for companies to stay with the familiar than to explore the unknown," assert the authors of this article. Staying with the familiar may have its dangers, however, in today's fast-changing world. An injection of entrepreneurship, by which creative people are encouraged to strike out and come up with new products or services, may become important to the financial health of organizations.*

*Here the reader is offered an anatomy of entrepreneurship. The article describes the entrepreneur's thought pattern in asking and finding answers to these questions: Where is the opportunity? How do I capitalize on it? What resources do I need? How do I gain control over them? What structure is best? The authors combine contrasts of the entrepreneur's state of mind with that of the "administrator," whose object is to husband resources and reduce risks.*

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Suddenly entrepreneurship is in vogue. If only our nation's businesses—large and small—could become more entrepreneurial, the thinking goes, we would improve our productivity and compete more effectively in the world marketplace.

But what does entrepreneurial mean? Managers describe entrepreneurship with such terms as innovative, flexible, dynamic, risk taking, creative, and growth oriented. The popular press, on the other hand, often defines the term as starting and operating new ventures. That view is reinforced by the enticing success of such upstarts as Apple Computer, Domino's Pizza, and Lotus Development.

Neither approach to a definition of entrepreneurship is precise or prescriptive enough for managers who wish to be more entrepreneurial. Everybody wants to be innovative, flexible, and creative. But for every Apple, Domino's, and Lotus, there are thousands of new restaurants, clothing stores, and consulting firms that presumably have tried to be innovative, to grow, and to show other characteristics that are entrepreneurial in the dynamic sense—but have failed.

As for the idea of equating the beginning stages of a business with entrepreneurship, note a recent study by McKinsey & Company on behalf of the American Business Conference. It concluded that many mature, medium-sized companies, having annual sales of \$25 million to \$1 billion, consistently develop new products and markets and also grow at rates far exceeding national averages.<sup>1</sup> Moreover, we're all aware of many of the largest corporations—IBM, 3M, and Hewlett-Packard are just a few of the best known—that make a practice of innovating, taking risks, and showing creativity. And they continue to expand.

<sup>1</sup> Richard E. Cavanagh and Donald K. Clifford, Jr., "Lessons from America's Midsized Growth Companies," *McKinsey Quarterly*, Autumn 1983, p. 2.

Exhibit I **Manager's opportunity matrix**

		Desired future state characterized by growth or change	
		Yes	No
Self-perceived power and ability to realize goals	Yes	Entrepreneur	Satisfied manager
	No	Frustrated potential entrepreneur	Consummate bureaucratic functionary

So the question for the would-be entrepreneur is: How can I make innovation, flexibility, and creativity operational? To help this person discover some answers, we must first look at entrepreneurial behavior.

At the outset we should discard the notion that entrepreneurship is an all-or-none trait that some people or organizations possess and others don't. Rather, we suggest viewing entrepreneurship in the context of a range of behavior. To simplify our analysis, it is useful to view managerial behavior in terms of extremes.

At one extreme is what we might call the *promoter* type of manager, who feels confident of his or her ability to seize opportunity. This manager expects surprises and expects not only to adjust to change but also to capitalize on it and make things happen. At the other extreme is the *trustee* type, who feels threatened by change and the unknown and whose inclination is to rely on the status quo. To the trustee type, predictability fosters effective management of existing resources while unpredictability endangers them.

Most people, of course, fall somewhere between the extremes. But it's safe to say that as managers move closer to the promoter end of the scale they become more entrepreneurial, and as they move toward the trustee end of the scale they become less so (or, perhaps, more "administrative").

When it comes to their own self-interest, the natural tendency of most people is toward

the promoter end of our behavior spectrum; they know where their interests lie and pursue them aggressively. A person's most valuable assets are intelligence, energy, and experience—not money or other material things—which are well suited to the promoter role.

A close relationship exists between opportunity and individual needs. To be an entrepreneurial opportunity, a prospect must meet two tests: it must represent a desirable future state, involving growth or at least change; and the individual must believe it is possible to reach that state. This relationship often identifies four groups, which we show in *Exhibit I*.

Companies of all sizes encounter difficulty encouraging entrepreneurship when the individual's interest and the corporate interest don't coincide. Executives may enhance their position or boost their income by serving the status quo through short-term and readily measurable actions such as cost reduction or price cuts, even though such "accomplishments" may not help and may even hurt the company's long-term welfare.

To make the individual's tendency toward entrepreneurship match corporate goals and needs is no easy task for companies. First must come an understanding of the ways in which the promoter and trustee mentalities exert influence within the organization. In these pages we try to further such an understanding and we develop a framework for analyzing the essential aspects of entrepreneurship in companies of all sizes. We then use the framework to offer suggestions for encouraging entrepreneurship.

## Entrepreneurial process

Based as they often are on changes in the marketplace, pressures for extension of entrepreneurship tend to be external to the company. Limitations on entrepreneurial behavior tend to come from inside, the result of high-level decisions and the exigencies of hierarchy. In making decisions, administrators and entrepreneurs often proceed with a very different order of questions. The typical administrator asks:

What resources do I control?

What structure determines our organization's relationship to its market?

How can I minimize the impact of others on my ability to perform?

What opportunity is appropriate?

The entrepreneur, at the other end of the spectrum, tends to ask:

Where is the opportunity?

How do I capitalize on it?

What resources do I need?

How do I gain control over them?

What structure is best?

The impact of the difference in approach becomes apparent as we trace the entrepreneurial thought pattern.

### Where is the opportunity?

Naturally, the first step is to identify the opportunity, which entails an external (or market) orientation rather than an internal (or resource) orientation. The promoter type is constantly attuned to environmental changes that may suggest a favorable chance, while the trustee type wants to preserve resources and reacts defensively to possible threats to deplete them. (See *Exhibit II*, part A.)

Entrepreneurs are not just opportunistic; they are also creative and innovative. The entrepreneur does not necessarily want to break new ground but perhaps just remix old ideas to make a seemingly new application. Many of today's fledgling microcomputer and software companies, for example, are merely altering existing technology slightly or repackaging it to accommodate newly perceived market segments.

The shakeout now going on in the publications aimed at cable TV subscribers illustrates good and bad reading of opportunity. In 1983 Time Inc. abandoned its *TV-Cable Week* after a pretax loss of \$47 million. Still thriving is *The Cable Guide*, which is operated by two entrepreneurs marshaling a fraction of Time Inc.'s resources and working out of a town in Pennsylvania. By listing broadcast programs as well as those available on cable, *TV-Cable Week* aimed its content at viewers and thereby annoyed some cable operators. *The Cable Guide* focuses on cable-transmitted programs only, thereby pleasing the cable operators who distribute it.

Woolworth's recent difficulties demonstrate the challenge posed by changing opportunities. For many years the company thrived because it had the best retail locations in America's cities and towns. That approach worked fine as long as all the best locations remained in the centers of cities and in towns. As the best retail sites shifted to suburban and highway

malls, however, Woolworth's was caught off guard and other mass merchandisers grabbed the new top locations. To survive, Woolworth's was forced into a defensive strategy of developing secondary suburban properties while closing old city stores.

Woolworth's is typical of many companies that, preoccupied with the strength of their resource base, are unable or unwilling to perceive momentous environmental changes. These companies turn opportunities into problems for fear of losing strength. For the entrepreneurial mentality, on the other hand, external pressures stimulate opportunity recognition. These pressures include rapid changes in:

- 1 Technology, which opens new doors and closes others. Advances in producing microcomputer chips helped make possible the personal computer market but at the same time shrank the minicomputer market. This development posed problems for those producers that failed to perceive the change quickly.

- 2 Consumer economics, which alters both the ability and willingness to pay for new products and services. The sharp rise in energy costs during the mid-1970s made popular the wood-burning stove and chain saw, and spawned the solar energy industry, among others. But these same pressures set back those huge sectors of our industrial economy that thrived on the belief in cheap energy forever.

- 3 Social values, which define new styles and standards of living. The burgeoning interest in physical fitness has opened up markets for special clothing, "natural" food, workout centers, and other businesses.

- 4 Political action and regulatory standards, which affect competition. Deregulation of airlines, financial services, and telecommunications has sparked opportunities for assorted new products and services while at the same time disrupting the economics of truckers, airlines, and many concerns in other sectors.

Unfortunately, innovation and the pursuit of opportunity impose a cost that many executives resist—the necessity of change. Like most other people, they tend to take comfort in routine and predictable situations. This is not because they are lazy; they are just more inclined to the administrative end of the organizational spectrum than to the entrepreneurial end. Among the internal pressures that move companies toward the administrative end are the following:

**The "social contract."** Managers feel a responsibility to employ human, manufacturing, technological, and financial resources once they have been acquired. The American steel industry, which had the best plants in the world during the 1950s but failed to update them in the face of rising foreign competition,

is a prominent example of the social contract gone awry.

**Performance criteria.** Few executives are fired for neglecting to pursue an opportunity compared with the number punished for failing to meet ROI targets. Capacity utilization and sales growth, the typical measures of business success, are almost always based on use of existing resources.

**Planning systems and cycles.** Opportunities do not show up at the start of a planning cycle and last for the duration of a three- or five-year plan. Better formal planning is often the enemy of organizational adaptability.

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### How do I capitalize on it?

The ability to identify favorable circumstances is important but isn't enough to qualify a person as an entrepreneur. Many innovative thinkers never get anything done. Promoters, however, move quickly past the identification of opportunity to its pursuit. They are the hawkers with umbrellas who materialize from nowhere on Manhattan street corners at the first rumbles of thunder overhead.

For the trustee, commitment is time consuming and, once made, of long duration. Trustees move so slowly that they may appear to be stationary; once committed, they are tenacious but still very slow moving. Entrepreneurs have gamblers' reputations because of their willingness to get in and out of markets fast. But merely moving quickly does not guarantee success. First, entrepreneurs must know the territory they operate in, then they must be able to recognize patterns as they develop.

Successful risk takers have the confidence to assume that the missing elements of the pattern will take shape as they expect. Thus designers of CAD/CAM equipment feel free to engineer systems around disk drives that have yet to be built. From their knowledge of the industry, the designers feel confident the drives will be built and therefore they can get the right products on the market ahead of competitors. On the other hand, many utilities act like trustees. For example, they resist adoption of digital technology to streamline their operations and stick to electromechanical recording for readings of important data.

The pressures pushing companies toward either the entrepreneurial or administrative end of the spectrum with regard to the timing and duration of their commitment are a mixture of personal, organizational, and environmental forces. They are listed in *Exhibit II*, part B.

Administratively oriented companies approach the question whether to commit to new opportunities more cautiously. Administrators must

negotiate with others on what strategy to take and must compromise to achieve necessary approvals. This process produces evolution rather than revolution. The search for perfection is the enemy of the good. Administrators often see the need to change as the result of failure of the planning process.

This disposition helps explain why managers of American electronics concerns sometimes are seen looking on in amazement as their Japanese counterparts consistently bring new electronics products—from videocassette recorders to talking calculators—to market first. These Japanese companies and other successful market-oriented businesses know that change is inevitable and, therefore, keep their organizations learning.

By endlessly studying how to reduce risk, instead of trying to deal with it, administrative companies slow the decision making. The many decision constituencies necessary to satisfy proposals for new products and services lengthen the process. If there's a project that everyone down the line agrees has a three-fourths chance of succeeding, the odds of getting that project through eight approval levels are one in ten. Many executives will justifiably say to themselves, why bother? (The Japanese have learned how to make rapid decisions by consensus without bogging down in layers of bureaucracy.)

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### What resources do I need?

In grasping opportunities, some institutions with vast resources (such as government agencies, large nonprofit organizations, and big corporations) are tempted to commit resources heavily, to "go first class" all the way. In this way, the rationale goes, you reduce your chances of failure and increase your eventual returns.

From our observation, however, success is unrelated to the size of the resource commitment. More important is the innovativeness with which the institution commits and deploys those resources. The Apple and IBM personal computers were developed and produced by organizations that have little vertical integration. Few successful real estate developers have architects, contractors, or even space salespeople on the payroll. Yet many of these organizations rack up extraordinary ROIs and ROEs.

As necessity is proverbially the mother of invention, people who start businesses often make imaginative use of their limited resources. A computer engineer starting a peripheral equipment company will discover selling skills she never knew she possessed. The owner of a new restaurant quickly adjusts to waiting on tables. Entrepreneurs who are effective make the sparsest allotment of resources.

**Exhibit II**      **The entrepreneurial culture vs. the administrative culture**

	← Entrepreneurial focus		Administrative focus →	
	Characteristics	Pressures	Characteristics	Pressures
<b>A Strategic orientation</b>	Driven by perception of opportunity	Diminishing opportunities Rapidly changing technology, consumer economics, social values, and political rules	Driven by controlled resources	Social contracts Performance measurement criteria Planning systems and cycles
<b>B Commitment to seize opportunities</b>	Revolutionary, with short duration	Action orientation Narrow decision windows Acceptance of reasonable risks Few decision constituencies	Evolutionary, with long duration	Acknowledgment of multiple constituencies Negotiation about strategic course Risk reduction Coordination with existing resource base
<b>C Commitment of resources</b>	Many stages, with minimal exposure at each stage	Lack of predictable resource needs Lack of control over the environment Social demands for appropriate use of resources Foreign competition Demands for more efficient resource use	A single stage, with complete commitment out of decision	Need to reduce risk Incentive compensation Turnover in managers Capital budgeting systems Formal planning systems
<b>D Control of resources</b>	Episodic use or rent of required resources	Increased resource specialization Long resource life compared with need Risk of obsolescence Risk inherent in the identified opportunity Inflexibility of permanent commitment to resources	Ownership or employment of required resources	Power, status, and financial rewards Coordination of activity Efficiency measures Inertia and cost of change Industry structures
<b>E Management structure</b>	Flat, with multiple informal networks	Coordination of key noncontrolled resources Challenge to hierarchy Employees' desire for independence	Hierarchy	Need for clearly defined authority and responsibility Organizational culture Reward systems Management theory

Besides their reckless invasion of markets, people at the promoter end of our scale have reputations as gamblers because they throw everything they've got at opportunities. But in reality they throw everything they've got simply because they don't have enough. Successful entrepreneurs seek plateaus of success, where they can consolidate their gains before trying to acquire control over additional resources and further pursue the opportunity. They wish they had more to commit, but they do more with less anyway.

What level of resources is required to pursue a given opportunity? Tension prevails between the adequacy of commitment and the potential for return. Handling this tension is part of entrepreneurship's challenge and excitement. (See *Exhibit II*, part C.)

Most of the risk in entrepreneurial management lies in the effort to pursue opportunity with inappropriate resources—either too few or too many. Failures in real estate investing, for example, occur when participants attempt projects larger than their re-

sources can handle. When the investors can't come up with more funds to tide them over unforeseen obstacles or setbacks, they fail. Large corporations tend to make the basic error of overcommitting resources.

Some large companies seem to believe that they can handle all opportunities with the resources they have behind them. But that's not always so: witness Exxon's spectacular entry into the electric motor control business and its subsequent humiliating retreat. A different error made by large corporations is rejection of openings in emerging businesses because they are "too small," thereby allowing new ventures an opportunity to gain footholds that cannot later be dislodged.

Looking beyond the size of the resource commitment, managers must consider its timing. At the administrative end of our spectrum, the tendency is to make a single decision for a total resource commitment. But during times of rapid change, such as we have experienced during the 1970s and 1980s, commitments in stages foster the most effective response to new competitors, markets, and technologies. Familiar by now is the staged entry of IBM into the full range of the microcomputer hardware and software market. Much of the genius of Procter & Gamble's marketing approach rests in trial, test, strategic experiment, and in-stage rollout of new products.

The pressures toward the gradual commitment of resources—toward the entrepreneurial end of our scale—are mostly environmental, and include:

**An absence of predictable resource needs.** Given the rapid pace of change in today's world, one must assume that in-course corrections will be necessary. The rapid advances have made technology forecasting hazardous, and projecting consumer economics, inflation rates, and market responses has become equally difficult. A multistage commitment allows responsiveness; a one-time commitment creates unnecessary risk.

**External control limits.** Companies can no longer say they own the forest and will therefore do with it what they want; environmental consideration must be taken into account. Similarly, increasingly strict zoning affects companies' control of real estate. International access to resources is no longer guaranteed, as the mid-1970s oil shortages made very clear. Corporate executives must respond by matching exposure to the terms of control. They have learned the lesson in international operations but seem unwilling to apply the lesson domestically.

**Social needs.** The "small is beautiful" formulation of E.F. Schumacher and the argument that too large a gulf separates producers and consumers are very persuasive. Gradual commitment of resources allows managers to determine the most appropriate level of investment for a particular task.

In many of our large corporations, however, the pressure is in the opposite direction toward a single, heavy commitment of resources (at the administrative end of the scale) for the following reasons:

**The need to reduce risk.** Managers limit the risk they face by throwing all the resources they can muster at an opportunity from the outset, even if it means wasting assets. Such a commitment increases the likelihood of early success and reduces the likelihood of eventual failure. This stress on concentrated marshaling of assets fosters the belief that the resources themselves bring power and success.

**Fragile tenure of management.** At companies in which executives are either promoted every one-and-a-half to two years or exiled to corporate Siberia, they need quick, measurable results. Cash and earnings gains in each period must surpass the last. You must achieve quick, visible success or your job is in danger.

**Focus on incentive compensation.** Concentration of resources upfront yields quick returns and easily measurable results, which can be readily translated into a manager's bonus compensation. Small-scale strategic experiments, however, often show little in the immediate bottom line and therefore produce no effect on pay tied to ROA or ROE while consuming scarce managerial time.

**Single-minded capital allocation systems.** They assume that the consequences of future uncertainty can be measured now, or at least that uncertainty a year from now will be no less than that at present. Thus a single decision point seems appropriate. Many capital budget systems make it difficult to get two bites of an apple.

In a typical case, a board of directors gets a request for \$1 million next year for a start-up that, if successful, will need \$3 million more in the future. The board, thinking in terms of full commitment, inquires into the return on \$4 million. It fails to realize that it can buy an option and make a judgment at the \$1 million stage without knowing the return on the extra \$3 million. Such an approach inhibits the exercise of managerial discretion and skill, which lie in revising plans as needed and doing more with less. Hewlett-Packard and 3M are exceptions to this rule; they encourage multiple budget requests. Approval of a project means that the manager is unlikely to get all that is asked for the first time around.

**Bureaucratic planning systems.** A project can win the support of 99 people and then get scuttled by just one rejection. An entrepreneur, though, can be rejected 99 times but go ahead if one crucial respondent gives approval.

Once a project has begun, requests for additional resources return executives to a morass of

analysis and bureaucratic delays. They try to avoid such problems by making the maximum possible upfront commitment.

An independent entrepreneur can field a salesperson when the need arises, but a corporate manager may put a salesperson in the field before necessary to avoid going through the approval process later. Easy access to small, incremental resources, allocated often on the basis of progress, has great power to motivate employees.

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## How do I control the resources?

When one thinks of a book publishing company, one imagines large numbers of editors, typesetters, publicists, printing presses, and salespeople. And that's the way most of the nation's largest book publishers are set up. But many of today's young publishing ventures consist of just two or three people who rely heavily on outside professionals and suppliers. When one of these acquires a manuscript, it will often hire a free lance to make editorial improvements. The publisher then contracts with a typesetting company to have the manuscript set in type, a printing and binding concern to produce the volume, and a public relations firm to promote the book. People who are the equivalent of manufacturers' reps sell the book to stores.

Not coincidentally, many large, well-known New York book publishers have struggled financially in recent years, while a number of the small young book publishing ventures have thrived. Although manuscript selection and marketing decisions certainly help determine success, two key factors are the ability to reduce overhead and the acumen to take advantage of cost-lowering technological changes in the printing industry by using outside resources.

Promoter types think that all they need from a resource is the ability to use it; trustee types think that resources are inadequately controlled unless they are owned or on the payroll. Entrepreneurs learn to use other people's resources well while keeping the option open on bringing them in-house. For example: on reaching a certain volume level, the maker of an electronic product decides that it can no longer risk having a particularly valuable component made by an outside supplier who may be subject to severe market or financial pressures. Each such decision pushes the entrepreneur toward the administrative arena. (See *Exhibit II*, part D.)

Because they try to avoid owning equipment or hiring people, entrepreneurs are often viewed as exploitive or even parasitic. But this trait has become valuable in today's fast-changing business environment, for the following reasons:

**Greater resource specialization.** A VLSI design engineer, a patent attorney, or state-of-the-art circuit-testing equipment may be a necessity for a company, but only occasionally. Using rather than owning enables the company to reduce its risk and its fixed costs.

**Risk of obsolescence.** Fast-changing technology makes ownership expensive; leasing or renting reduces the risk.

**More flexibility.** Using instead of owning a resource lowers the cost of pulling out of a project.

Power and status, as expressed in a hierarchy, and financial rewards push organizations toward the administrative end of the spectrum and toward ownership. In many corporations, the extent of resource ownership and control determine the degree of power, the status level, and the amount of direct and indirect compensation. Administrators argue for the ownership of resources for many sound and valid reasons, among them:

**Efficiency.** Execution is faster because the administrator can order a certain action without negotiation. Moreover, by avoiding having to find or share the right outside resource, companies capture (at least in the short run) all profits associated with an operation.

**Stability.** Effective managers are supposed to insulate the technical core of production from external shocks. To do this they need buffer inventories, control of raw materials, and control of distribution channels. Ownership also creates familiarity and an identifiable chain of command, which becomes stabilized over time.

**Industry custom.** If everyone else in an industry owns, it is a competitive risk to buck the tide.

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## What structure is best?

A strangling organizational structure or a stifling bureaucracy often stirs corporate managers to think about starting or acquiring their own businesses. Rebuffed by "channels" in attempts to get their employer to consider a new product or explore a new market, they long for the freedom inherent in a small and flexible structure.

When it comes to organizing businesses, there is a distinct difference between the promoter and the trustee mentalities. Via contact with the principal actors, the promoter tries to "feel" the way events are unfolding. The trustee views relationships more formally: rights, responsibilities, and authority are con-

ferred on different people and segments of an organization. The trustee is prepared to take action without making contact with those that are affected by the decision.

Also influencing the approach to business organization is the control of resources. To help them coordinate their activities, businesses that use and rent resources by necessity develop informal information networks both internally and externally. But organizations that own and employ resources are easily and naturally organized into hierarchies according to those resources. Because hierarchy inhibits not only the search for and commitment to opportunity but also communication and decision making, networking evolves in most companies. Usually this networking is formalized in matrix and committee structures. (See *Exhibit II*, part E.)

Commentators on organizations often criticize the entrepreneur's antipathy toward formalized structure as a liability stemming from an inability to let go. The entrepreneur is stereotyped as egocentric and unable to manage. In this view, the administrator may not be very spontaneous or innovative, but is a good manager. In reality the entrepreneur isn't necessarily a worse manager than the administrator but has simply chosen different tools to get the task done. Fashioning these tools are the following pressures:

**The need to coordinate resources that are not controlled.** Entrepreneurs must motivate, handle, and direct outside suppliers, professionals, and others to make sure needed goods and services are available when they're supposed to be.

**The need for flexibility.** In today's atmosphere of rapid change, the development of much essential operating information outside the company makes communication with external resources even more important. The notion that hierarchy provides stability does not hold true, especially if one considers that in a typical company growing 30% annually, only 40% of the employees three years down the line will have been with the company from the start. A flat and informal structure enhances communication.

**Employees' desire for independence.** Many of today's managers are still influenced by the antiauthoritarian values of the 1960s and the self-fulfillment values of the 1970s. Furthermore, organizations with little hierarchy breed employees accustomed to authority based on competence and persuasion; they will resist attempts to introduce structure and to rationalize authority based on hierarchy.

Of course, hierarchical organizations arise for rational reasons. According to classic management theory, a formal, well-defined structure ensures attention to all the necessary planning, organizing, and controlling activities. Among the pressures against the

entrepreneurial approach and toward the administrative are the following:

**The greater complexity of tasks.** As planning, coordinating, communicating, and controlling functions become more involved, clearly defined authority and responsibility are needed to ensure adequate differentiation and integration.

**Stratified organizational culture.** If a desire for routine and order comes to dominate corporate attitudes, a more formal structure is attractive and reassuring.

**Control-based reward systems.** As we indicated earlier, reward systems are often based on the amount of control executives have, as measured in the organizational structure. Thus incentives reinforce formality.

It's easier, of course, to avoid adding structure than it is to reduce existing structure. Many of the high-technology companies in California's Silicon Valley and along Route 128 in Massachusetts have been notably successful in keeping structure to a minimum by erasing distinctions between upper and lower management and encouraging such group activities as the Friday afternoon beer bust. The fewer the distinctions, the less inhibited lower-level employees will be about approaching top managers with complaints and suggestions about operations. Managers trained to expect an orderly world may feel uncomfortable in such an informal atmosphere, but the dividends in coordination and motivation can be important.

It is possible for companies with extensive structure to reduce it. Sears, Roebuck has trimmed its corporate staff way back and in the process has granted much autonomy to its operating units. Dana Corporation, like many other companies, has found that cutting out the "helping staff" has improved performance.

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## Stimulating entrepreneurship

Our discussion should have made clear our belief that entrepreneurship is a trait that is confined neither to certain types of individuals nor to organizations. Obviously, it is found more in smaller and younger enterprises than in larger and older ones simply because the conditions favoring its development are more likely to be present.

For many people, the dream of being the boss and being financially self-sufficient is enough to stimulate the pursuit of opportunity. The venturesome



are usually forced by capital limitations to commit resources gradually and to rent or use them rather than own them. Similarly, they recoil from the idea of bureaucracy; to them, it's vital to have an organization that can react quickly to new opportunities.

Even so, many of the nation's small businesses inhabit the administrative end of our spectrum. The owners shy from taking risks in pursuit of growth; perhaps they are preoccupied with other financial activities such as investing in real estate or the stock market, paying their children's college expenses, or providing for impending retirement. Perhaps they only want the business to provide a steady living, so they run their businesses in a way to guard what they have.

A society can do much to stimulate or inhibit the development of entrepreneurship. Government policy can do much to create opportunity. Decisions in recent years to lower the capital gains tax and deregulate certain industries have been instrumental in encouraging the establishment of many new businesses that otherwise would probably not exist today. Support of basic research in health, technology, and material science establishes a base on which opportunities are built.

Similarly, the way our colleges and universities teach business management affects approaches to entrepreneurship. Courses and departments in entrepreneurship, set up at many such institutions, will produce increasing numbers of young managers who are attuned to effective ways of pursuing opportunity and managing resources.

While government agencies and educational institutions can create conditions favorable for entrepreneurship to take hold, it's up to individual organizations to foster the conditions that allow it to flourish. That means encouraging the timely pursuit of opportunity, the most appropriate commitment and use of resources, and the breakdown of hierarchy.

Those goals of course are not easy to reach, especially if the organization must be turned around from its habitual administrative approach. We see in corporations the same type of opportunity matrix as we described for individual managers early in this article and in *Exhibit I*. As one can see in *Exhibit III*, movement to the left requires a strategic focus and the instillation of belief throughout the organization that change is acceptable and even desirable. Movement upward presupposes that corporate officers think their organization has the capacity to acquire resources as needed. To foster this belief the leadership of the organization can:

**Determine its barriers to entrepreneurship.** Is a manager's principal reward found in handling the company's existing resources? Are managers expected to pursue outside opportunities in its behalf

Exhibit III

Corporate opportunity matrix

		Desired future state characterized by growth or change	
		Yes	No
Belief in capacity to influence the competitive environment	Yes	Adaptive, entrepreneurial organization	Complacent, though successful, market leaders
	No	Reactive planners	Bureaucratic and lethargic organization

only when they have extra time? Do management and director committees evaluate opportunities on an all-or-none, one-shot basis? Do superiors have to go through many levels to gain approval for capital budgets and adding personnel?

**Seek to minimize risks to the individual for being entrepreneurial.** When people are promoted for behaving like trustees while promoter types are shunted aside if not eased out, there's little motive to be venturesome. The leadership can work at reducing the individual's cost of failing in the pursuit of opportunity, especially if the failure is externally caused. To convince skeptical managers that the risks have indeed been reduced, the leadership must not only recognize entrepreneurship as an organizational goal but also eliminate the bottom line as the main determinant of subordinates' success.

**Exploit any resource pool.** The huge resources that many companies have can be committed intelligently. Indeed, the fact that they are huge can be an important aspect of reducing the perceived risk to managers of pursuing opportunity. After all, resources per se reduce risks associated with exploiting opportunity. Excess resources can also support a thorough search process. And if enough opportunities are pursued, there can be ultimate success even if some fail.

**Tailor reward systems to the situation.** For some, a primary motivating force is the possibility of becoming wealthy through ownership in a growing enterprise. For a start-up or early-stage venture, then, equity in the company may be the main incentive

encouraging entrepreneurial behavior on the part of the initial employees. Large organizations cannot hope to duplicate this lure without creating interest among those who are not offered such rewards. (Managers of these companies are often driven by other objectives anyway, including security and growing responsibility.) The leadership of established corporations, then, must think in terms of fostering team commitment and rewarding successful entrepreneurs with chances to do more of the same on a grander scale.

It's much easier and safer for companies to stay with the familiar than to explore the unknown. Only by encouraging change and experimentation can companies of all sizes adapt and grow in the midst of much uncertainty. ▢

## To do the impossible

"I don't know who it was who said when we think of the past we regret and when we think of the future we fear," [said Judge Coates,] "and with reason. But no bets are off. There is the present to think of, and as long as you live there always will be. In the present, every day is a miracle. The world gets up in the morning and is fed and goes to work, and in the evening it comes home and is fed again and perhaps has a little amusement and goes to sleep. To make that possible, so much has to be done by so many people that, on the face of it, it is impossible. Well, every day we do it; and every day, come hell, come high water, we're going to have to go on doing it as well as we can."

"So it seems," said Abner.

"Yes, so it seems," said Judge Coates, "and so it is, and so it will be! And that's where you come in. That's all we want of you."

Abner said, "What do you want of me?"

"We just want you to do the impossible," Judge Coates said.

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# 1985 Judges for the McKinsey Awards

Since 1959, the McKinsey Foundation for Management Research, Inc. has made grants to HBR for the purpose of conferring annual awards for the two best articles published.

The purpose of the awards is to recognize outstanding and readable articles that are of such significance to the top management of businesses that they are likely to influence top management action.

This year the author of the article receiving first prize will be given \$2,500; the author of the article receiving second prize, \$1,000. In 1985, articles will be judged by this board:

D.V. d'Arbeloff,  
Chairman and CEO,  
Millipore Corporation

Jane Evans,  
President and CEO,  
Monet,  
Vice President,  
General Mills

Richard H. Jenrette,  
Chairman and CEO,  
Donaldson, Lufkin &  
Jenrette, Inc.

Yotaro Kobayashi,  
President,  
Fuji Xerox Company, Ltd.

Worth Loomis,  
President,  
Dexter Corporation

Robert Mercer,  
Chairman and CEO,  
Goodyear Tire  
and Rubber Company

Hans Stahle,  
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