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The Delusion of Intrapreneurship

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The purpose of this article is to provide some insight into the limitations in the concept of intrapreneurship, the definition of an 'intrapreneur' being an entrepreneur operating within a large comany rather than in his own business. The author believes that intrapreneurship is not a formula for successful innovation in large companies as a bureaucratic system cannot provide the rewards and the personal autonomy which the true entrepreneur requires.

In the wake of Japanese management techniques and with a broad backdrop of behavioural research, which has emphasized more trusting and creative group relationships for more than 20 years, managers in large companies are being asked to consider new structural changes which are quite unique. The latest popular prescription for the revitalization of large businesses is called 'intrapreneuring'.

Aware that entrepreneurs are the darlings of the venture capital market, and mindful of such research as the U.S. National Science Foundation study[1] which reports that each dollar spent for research and development by small firms produces four times more innovation than a comparable dollar lavished by large companies, the pragmatic advocates of this newly 'coined' practice have confidently advised, 'if you can't beat 'em, join 'em'.

Gifford Pinchot, in his book *Intrapreneuring*,[2] defines the 'intrapreneur' in the same terms that most knowledgeable people use to describe entrepreneurs. In fact, an important theme of the book is to explain that an entrepreneur can operate within a large comany in much the same way that he would proceed if he were in a smaller firm; given that the right conditions exist in the company. The *intrapreneur* then, is seen as a sort of internal entrepreneur. His charge is to duplicate the energy, resourcefulness and innovation of entrepreneurs on the outside, and the corporation is admonished to give him the tools to do it with.

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It has been fairly well documented that entrepreneurial practices leading to desirable growth and profitability are inherent in many small and mid-sized growth companies.[3] What I will examine in the pages that follow is the likelihood that these arrangements can be useful in large organizations as well.

I first became uneasy about the potential for entrepreneurial activity in large companies when as part of a research project I discussed the role of entrepreneurs with a number of key executives of large firms in the U.S.A. and the U.K. The feeling I received was unanimously one of guarded unease about 'that breed of cat' as one manager described them. A number of these executives remembered attempts to institute entrepreneurial practices somewhere in the firm, but there seemed to be little evidence of success. One chief executive recalled his experience as follows:

> We have had quite a lot of experience with entrepreneurs. A number of companies we have acquired over the years were headed by people you would describe as entrepreneurs, and of course most of them came to work for us as part of the deal. I must say that, in the main, they have lacked the team spirit we require of our executives. In fact, we have had so much difficulty getting these people into our way of doing things that I am sure not one of them is still with us.

None of these executives was pessimistic about the possibility of change, or increased levels of innovation in his company. They were universally familiar with the strides of recent years in organizational development and strategies for change; in fact some of them were quite enthusiastic about increasing innovation through change in their firms. They were not, however, sanguine about the organizational role of entrepreneurs. What then are the chances of success for intrapreneurs in large business organizations?

Since we are interested in voluntary work activity on the part of a limited number of individuals (surely entrepreneurial activity is not the norm in these organizations), it seems reasonable to consider the motivational aspects of entrepreneurship, and by extension, what is needed to induce such people to

exercise their entrepreneurial skills in large companies. Here we have access to considerable motivational research.[4]

While an extraordinary number of motivating factors are suggested by various studies, two stand out as universal and important. These are: the expectation of wealth, and the need for personal autonomy. Without regard for the myriad other reasons then, let us examine just these two major motivations of entrepreneurs to see if they can be provided by large firms. To do so, we will need to consider three sometimes overlapping areas of policy common to most large firms. These are:

☆ the reward structure;

☆ the locus of control in the organization and

☆ the nature of the corporate culture.

Rewards

Of all the rewards that entrepreneurs expect from business, financial gain is certainly the most widely publicized. The number of entrepreneurs in innovative businesses who have amassed sizable fortunes is impressive. The importance of the statistics can hardly have escaped anyone who has a spark of inventive genius or entrepreneurial spirit. Referring to U.S. facts alone, recent statistics show close to 1 million individuals who could claim a net worth of more than $1m, while about 5300 people report incomes in excess of $1m each year. Many of these people have been publicly associated with new ventures.

Vroom,[5] in 1964, proposed the now widely accepted Preference–Expectation theory of Motivation. His conclusions have been restated in a quite clear form by Filley and House as follows:

> Whenever an individual chooses between alternatives that involve uncertain outcomes, it seems clear that his behavior is affected not only by his preferences among outcomes, but also by the degree to which he believes these outcomes to be probable.[6]

When applied to the expectation of wealth, Vroom's motivational concept simply says that an entrepreneur's performance will be conditioned by his expectation that whatever project he undertakes not only will succeed, but will make him wealthy.

Even under the best corporate incentive plans (usually involving stock options for successful performance) the *expectation* of wealth cannot often match that of the outside entrepreneur.

Large corporations clearly have a multiplicity of factors to consider when arranging compensation, factors which generally do not burden smaller growth companies. Simple fairness in personnel policy probably heads this list. Since intrapreneurs, by definition would be only a small part of the staff of any firm, to allow them to receive the kind of wealth that they may expect from successful performance elsewhere, might seriously unbalance the compensation system involving thousands of other people—people whose contributions are also highly valued by the firm.

Can we expect, for example, that a brilliant engineer who designs a breakthrough system, ultimately producing great company profit, will be paid more than the Chief Executive of his firm? It would seem unlikely. Yet, as an entrepreneur, or a member of a team, in a smaller company, that same engineer may have the expectation of amassing just such wealth.

Consider the likely expectations of our hypothetical engineer after he has reviewed the widely disseminated financial statistics of some entrepreneurial winners. The following are a few of the chief executives of computer companies in the U.S.A. and the value of their stock on the morning after their company went public.[7]

K. Phyllip Hwang	TeleVideo Systems	$610m
Andrew Kay	Kaypro	$245m
Lorraine Mecca	Micro D	$59m
Mitch Kapor	Lotus	$56m
Hal Lashlee	Ashton-Tate	$49m

Can we not then expect, on the basis of Vroom's theory as well as common sense, that entrepreneurs will prefer to associate with firms from which they can have a high expectation of wealth?

Or, in the words of Robert Welch, President of Zitel, a small computer memory company then on the verge of public financing, 'I can smell the Ferrari now.'[8]

Clearly, large firms are not in a position to match the wealth expectations of individuals who see themselves as entrepreneurs, able to master both the innovative and management challenges of new ventures.

The Locus of Control

The studies of organizational design reported by Joan Woodward[9] have become the benchmark research of the 'contingency' school of management thought, and serve to describe the important link between the complexity of technology and successful organization structure.

While Woodward's findings are detailed, one can safely summarize at least one dimension of her work by observing that classical, bureaucratic organizations with narrow spans of control are the most successful forms of structure in businesses that utilize simple and stable technologies.

Such businesses are characterized by highly centralized control over factors such as budgets and critical decision making.

A review of the structural arrangements in companies in the *Fortune* 500 group reveals a consistent bias for Product Division and Functional Division organization. These bureaucratic arrangements seem reasonable, particularly in companies which rely on older technologies for survival.

Such bureaucratic forms of organization however are inconsistent with the second entrepreneurial motivation I have mentioned—personal autonomy. Among the benefits of these classical structures are the stability and control which they bring to industries where growth is slow and priorities are aligned with profit maximization from relatively stable technology. This very stability and control, as we shall see in the examples that follow is a constant threat to the autonomy needed by entrepreneurs.

Corporate Culture

If it is difficult to motivate entrepreneurs in large companies, why do firms such as 3M and Hewlett-Packard seem to be successful at it? The answer lies in the deliberate establishment of a corporate culture which will support the needs of entrepreneurial people.

At 3M for example, employees across the board are allowed to use up to 15 per cent of their time to work on a pet project. Researcher Arthur Fry used this 'bootleg slack' time to develop 3M's most successful new product to date—Post-its.

While 3M's policies to encourage innovation are legend, as are those at HP and other large research-based companies, the significant issue is that the encouragement of innovation is deliberate in these firms. The culture of the entire firm has been purposely designed to promote it.

In contrast, the bureaucratic firm encourages stability, specialization and control. These factors inhibit innovation because they stifle the autonomy required by entrepreneurial people. But the bureaucratic firm cannot modify its structure to facilitate innovation as long as it is dependent on the stable technology which needs bureaucratic control.

A few years ago I attended a meeting of the Academy of Management in Phoenix Arizona. At the plenary session we were addressed by an Executive Vice President of Atlantic Richfield Corporation, the large U.S. energy company. This gentleman's topic was the encouragement of innovation within ARCO. Three hundred professorial heads nodded assent as he described the policies the firm had instituted to improve the flow of information between departments and divisions, the incentives it had provided to young managers to innovate, the new, freer atmosphere of dissent which ARCO's policies had made possible.

He described an innovative marketing programme developed by a team of young managers, which was enabling the company to increase its share of the retail market for gasoline in California.

During the question period there was considerable interest in the new marketing strategy. As we moved toward the obvious end of the session, a hand was raised with a question . . . 'I am very interested in your programme to improve innovation,' said the questioner, 'Would you mind telling us; when your company adopts a proposal of one of your innovative managers, and the project fails. What happens to the career of that manager?'

There ensued a long silence. After a while, the ARCO executive said, 'That is a very good question. I must confess that we have not yet developed a way to deal with that situation. It does seem clear however, that once a managers project has failed, it will be difficult to promote him in the future.'

Risk taking is certainly one of the most important elements in the success of entrepreneurs. While new ventures are always accompanied by risk, the style of most new venture managers involves acceptance of reasonable risks in lieu of certainty, and preservations of options to try again if failure occurs.[10] The ARCO experience displays, in this writers opinion, one of the important incompatibilities of traditional organizations and entrepreneurship. Employees of such large organizations simply cannot be expected to assume the career risks often associated with innovative projects.

There is perhaps no better example of the limitations of corporate culture than events in the aftermath of design by an entrepreneurial team of the MV8000 computer at Data General Corporation. Dubbed internally the 'Eagle', the state-of-the-art machine which was to rescue Data General from an obsolescence crunch in 1980 and contribute enormously to its cash flow, was the result of $2\frac{1}{2}$ years of intense work in a basement laboratory by a team of 30 young engineers.

While the team leader, J. Thomas West is now a Data General Vice President, the three managers who reported to him on the project have left the firm. Nine of the 14 key engineers on the design team have also left and are with small entrepreneurial companies that did not exist a few years ago.

Stephen Wallach, Eagle's chief designer now heads his own firm, Convex Computer Corporation. He says he reacted bitterly when the Eagle team was broken up after the design proved successful at Data General, and he left the firm to join a competitor.

He was subsequently 'recruited' by venture capitalists Sevin Rosen Management Company, and with partner Robert Palluck set up his own shop.

Quotations from former team members reveal how they have reacted to company policies in the wake of Eagle's success. According to Carl Alsing, now heading engineering at Palantir Corporation, the entrepreneurial thrust of the project was 'very destructive' to company loyalty. As they battled other groups for scarce resources, 'we thought we were on a different team'. In the words of Wallach, 'We didnt walk away [from the Eagle] with the feeling of coming off a high . . . we were saying, "wait a second, this isn't how it's supposed to work" '. 'It was founded on a lie,' recalls Alsing when he describes how West, the Project Manager, promised to sneak budgets for the new design concept past the Data General brass. Finally, Carl Carman, formerly Data General's Vice President of engineering and not a member of the team says, 'There was just no way to meet their expectations' with rewards that would match the value of their contributions. Carman, no longer with Data General, is now a venture capitalist.

In Table 1 the entrepreneurial motivators, 'expectation of wealth' and 'personal autonomy' are displayed to summarize the effects of different organizational systems. The terms 'bureaucratic' and 'innovative' are used to represent traditional and innovative type organizations, recognizing that these terms are generalizations. Innovative organizations may be large firms or small- or medium-sized companies where entrepreneurial values are part of the culture. The values, low and high are relative and denote tendencies in the indicated direction.

Implications for Managers

It seems clear to me that in the absence of a company-wide culture specifically designed to encourage entrepreneurial activity, large firms are well advised to consider other means to stimulate innovation. *Large companies with bureaucratic systems cannot hope to provide either the expectation of reward, or the personal autonomy which will attract and hold the best entrepreneurial people.* Intrapreneurship does not hold out hope of success in these companies because the reward structure will not permit compensation in line with the expectations of entrepreneurs, the locus of control in the organization does not allow for sufficient personal autonomy, and the corporate climate in bureaucratically organized firms promotes stability which often runs counter to the needs of innovative processes.

If it is considered essential to incorporate entrepreneurs in the innovative mix of corporate investments, these firms should consider acquiring independent subsidiary firms, where the requisite entrepreneurial culture can be allowed to take hold and grow. General Motors Corporation has recently chosen this strategy with the acquisition of Hughes Aircraft Company, an electronics and communications firm. The acquisition agreements are said to include an agreement on the part of GM to allow Hughes to be managed separately from its new parent, to protect the research environment which Hughes managers feel is essential to its continued growth.

There is a strong legacy of research and development management which emphasizes the production of creative inputs, and which has been practised successfully by the best managed large firms for many years. In the main it is these models, augmented by imaginative marketing, and not the entrepreneurial role which are most likely to produce the innovative results needed by most of our largest businesses.

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(4) Examples of this literature include: Calvin Kent, *The Environment for Entrepreneurship,* Heath, Lexington, MA (1984) and William Baumol, Toward operational models of entrepreneurship, in *Entrepreneurship,* edited by Joshua Ronen, Lexington Books (1983).

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(8) *Time,* 23 January, p. 49 (1984).

(9) Joan Woodward, *Industrial Organization: Theory and Practice,* Oxford University Press, London (1965).

(10) See David Gumpert and Howard Stevenson, The heart of entrepreneurship, *Harvard Business Review,* March–April, pp. 85–93 (1985).

(11) The Eagle project is described in *The Wall Street Journal,* 30 September, p. 1 (1985).

Table 1.

	Reward system		Locus of control		Company culture	
	Bureaucratic	Innovative	Bureaucratic	Innovative	Bureaucratic	Innovative
Expectation of wealth	Low	High			Low	High
Personal autonomy			Low	High	Low	High