Debriefing William Sahlman

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Manage Like an Entrepreneur

by Lauren Keller Johnson

Entrepreneurship is a largely misunderstood—and thus underused—idea in business, says Harvard Business School professor Bill Sahlman. "It isn't a set of character traits, and it's not an economic function," he says. Rather, it's a way of managing that can add enormous value to organizations no matter their size, scope, or age.

Entrepreneurial managers don't necessarily start new companies. Indeed, some of the best and the most successful work in large, established organizations. What defines them is that "they pursue opportunities beyond the tangible resources currently controlled by their organizations," Sahlman says. "And they're driven to identify new opportunities, not protect what their companies already have."

In a business climate where disruptive technologies overturn all the rules and new rivals attack without warning, executives who fail to lead like entrepreneurs place their companies in deep peril. Sahlman cites examples from the U.S. steel, automobile, and consumer electronics industries. As foreign competition heated up, he says, management and labor in these industries attempted to protect the status quo by getting laws passed that erected trade barriers rather than identifying and embracing new opportunities. In contrast, managers at Intel found new potential in areas like microprocessors rather than trying to protect their struggling memory chip business, Sahlman says.

Deeply embedded assumptions hold many executives back from mastering this management approach. Yet a handful of practices and principles can help leaders begin thinking—and acting—like entrepreneurs.

1. Start at the top

"Entrepreneurial management needs to happen at the top of an organization," Sahlman says. "And it must permeate the company's culture and all its systems." For example, he says, leaders have to ensure that people who seize a new opportunity, but fail, don't suffer political death. The failure should be diagnosed and the person given a second chance. "Harsh punishment of all failure, regardless of cause, will wipe out the incentive to take risks that are in the best interest of the company," he says.

Compensation and budgets must reinforce entrepreneurship. For instance, Sahlman says, don't reward people based on how many direct reports they manage and what their short-term performance looks like compared to a plan. "That only focuses people on the present rather than the future, and it encourages building empires," he says.

Instead, leaders need to reward people based on what value they've created and how they've exploited opportunities while minimizing the resources required. "This kind of system encourages efficiency and rivets people's attention not on resources but on customer needs."

In sum, Sahlman says, "entrepreneurial management requires changing how you measure what you're doing, who's doing it, and how they're doing it."

2. Run war games

Sahlman says that leaders who practice entrepreneurial management regularly ask themselves, "If our company were a start-up, how would we attack us?" They also cultivate a

BEING ENTREPRENEURIAL AT LANDMARK COMMUNICATIONS

Landmark Communications provides an excellent example of the bottom-line benefits of an entrepreneurial culture. The privately held, Norfolk, Va.–based company has interests in newspapers, television broadcasting, cable programming, and electronic publishing, along with emerging interests in database marketing, career education, and trade shows. At Landmark, "managers are constantly scanning the world for new opportunities," Sahlman says. "For instance, rather than viewing the Web as a threat to their business, they anticipated how Landmark could benefit from it." By embracing an entrepreneurial mindset, Landmark dove into the Web to expand its variety of channels, including NAXCOM.com, an online sports and collectibles marketplace. It also moved early to augment its highly successful national cable network The Weather Channel with www.weather.com, which became a market leader in online weather. At Landmark, even if a venture fails, competent managers are given new, challenging assignments.

healthy paranoia, reminding themselves that "just as we once attacked more established companies, we will likely come under attack ourselves." And rather than focusing on recent performance, these leaders constantly ask, "Why did we miss that opportunity?"

Moreover, entrepreneurial leaders know that threat can come from any direction. In the 1980s, for example, disruptive technologies enabled a wave of start-ups to bring down older, entrenched organizations. Giants such as Bethlehem Steel fell to newcomers that mastered innovative steelmaking methods first. And start-ups increasingly attracted human and financial resources during that volatile decade—the better to step up their assault on incumbents.

Even now, hugely successful firms can run into trouble by trying to protect what they have rather than developing an opportunity orientation. For example, he says, Microsoft has been very opportunity driven in some ways. "It successfully entered the gaming industry, it has a lot of smart people, and it has enormous resources. But it has missed important opportunities, such as those grabbed by Google, because it's been in defense mode. It wants to protect its monopoly and its strong market position. It is also vulnerable to disruptive attacks, as evidenced by the current Linux revolution."

3. Resist the sunk-costs trap

Too many executives, Sahlman warns, fall prey to the sunk-costs trap: that all-too-common aversion to cutting one's losses and accepting the sad fact that previous investments aren't going to pay off no matter how long you wait. For example, companies that strove to protect their factories—even after the business model they were based on became outdated—stepped directly into the sunk-costs pitfall.

Replacing an older business model with a new one takes the courage and will to destroy protective cocoons built around trusted structures and practices. Few organizations have pulled it off, says Sahlman.

IBM is a rare success story. "By moving from the hardware business model to the services business model," he says, "the company adapted to change." Staples.com is another example of success. "They do $2 billion a year," Sahlman says, "because the Staples senior management team was willing to consider change." They told themselves that turning the online threat into an opportunity might hurt, but if they didn't take advantage of this opening, someone else would.

4. Don't worry about scale or cannibalization

"Many managers say that if a new opportunity can't be a guaranteed $2 billion business, they're not interested," Sahlman says. This attitude can become a major obstacle if it isn't challenged.

Fear that a new business venture will cannibalize established efforts constitutes another danger. Sahlman offers the example of bookseller Barnes & Noble's less-than-stellar entry into online sales. "They weren't nearly as successful as Amazon.com because they spent their time worrying that the new online business would sabotage in-store book sales. They didn't take the time needed to realize that this was a different business that required different sorts of leaders. And they found it difficult to share equity in the same way that Jeff Bezos did at Amazon."

5. Safeguard entrepreneurship in acquired companies

Some companies use acquisitions to gain the skills, resources, and entrepreneurial talent they need to stay competitive. This is a valid approach—but it also presents some perils, Sahlman notes. Specifically, the acquiring firm's leaders must protect the entrepreneurial spirit embodied in the acquired company and resist any urge to relegate the new group to special "entrepreneurial pockets" in the company.

Take New York City–based IAC/InterActive Corp., a diversified business consisting of online travel and other services. According to Sahlman, the company has constantly expanded the range of services it offers and has acquired numerous other firms to increase the value of its network. After CEO Barry Diller acquired LendingTree.com, Sahlman says, he nurtured its management team. To encourage these managers to continue focusing on opportunities, IAC enabled them to "own some of the upside." Moreover, "Diller treats those managers with respect and sees them as entrepreneurial leaders, not cogs in a big wheel, and he gives them a level of independence in decision making."

And as for putting acquired groups into supposedly entrepreneurial pockets in the acquiring company, Sahlman claims: "It doesn't work. The whole organization has to embrace entrepreneurial management. You can't have one part of the company be entrepreneurial while another part isn't." Sahlman also contends that "you've got to spread that entrepreneurial spirit and accelerate it throughout the firm." How? "Get managers together from around the company to share best practices and lessons learned, and drive home the importance of constantly looking for ways to improve." ◆