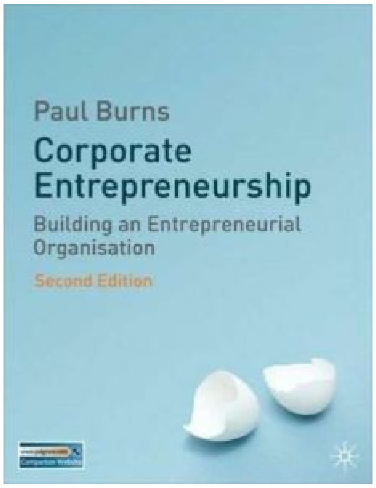

Book Corporate Entrepreneurship

Building an Entrepreneurial Organisation

Paul Burns
Palgrave Macmillan, 2008
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Recommendation

Much of the business world's enchantment with entrepreneurialism focuses on new start-up companies. Time to reboot. This textbook by professor Paul Burns explains how an established company can recapture the innovative magic of entrepreneurialism. *BooksInShort* recommends this guide to combining the creativity, agility and innovation of an entrepreneurial start-up with the market power, reach and security of a big, established company. Burns covers many facets of the management tactics needed to bring an entrepreneur's creative drive into the realm of the settled corporation. In this chunky manual, he draws on numerous examples from well-known companies such as Dell and Virgin Airways to put entrepreneurialism in an overall economic context, and he teaches managers how to propel their firms forward by being flexible, eager, and inventive.

Take-Aways

- The "entrepreneurial revolution" affects how companies work and how their leaders think.
- Entrepreneurs are not necessarily small-business oriented.
- Even large, established companies can develop an innovative entrepreneurial spirit.
- Try to balance large-business security, resources and structure with small-business inventiveness, drive and creativity.
- Entrepreneurs are goal oriented rather than procedure oriented.
- They must be creative, innovative, realistic and aware of consumer needs.
- Entrepreneurs tend to focus on action, not planning, but they must create flexible plans.
- People inside large firms who sell and shepherd innovation are called "intrapreneurs."
- To invigorate entrepreneurial energy in your organization, encourage creativity as much as possible.
- Ideally, innovation will have a market application, but leaders must foster inventiveness even if it doesn't immediately sell.

Summary

The "Entrepreneurial Revolution"

A business revolution is underway – not just in how businesses operate but in how their leaders think. Actually, this entrepreneurial revolution has been in motion for several decades. Commentators often refer to entrepreneurship as a "slippery concept," an asset that everyone wants but no one can define fully. People tend to confuse the term "entrepreneur" with "small-business" owner. Some people with smaller companies may be quite happy to have their firms reach a certain level, sufficient to supply a good living, and later to maintain that level. They are a valuable part of the overall economy, but they are not entrepreneurs – businesspeople who seek profit by taking risk and showing initiative. Entrepreneurial people and companies often concentrate on some form of innovation, whether in products (Dell), services (Virgin Airlines), prices (Walmart), marketing (McDonald's), or a combination of these areas.

The New World of Entrepreneurship

Economic development efforts often focus on small companies as the likeliest source of new methods of wealth creation, innovation and jobs. Small businesses have room to learn by trial and error, while large, more mature businesses potentially could threaten their survival or even the larger economy if their plans go awry. Small firms are often more agile in the face of change than large firms.

> "We are in the middle of a business revolution."

Take Dell Computers, which Michael Dell started in 1984 as a small business. Dell is now a major corporation. It even exhibits some of the "bad habits" of big companies, such as overseas outsourcing. Dell outsources production that doesn't fit its core business, particularly the manufacturing of microchips, which computer companies do not make. Over time, it has adapted more readily to market needs than IBM. Another established firm, Royal Bank of Scotland, found new, entrepreneurial ways of building on retail banking, the core business it does best. It expanded that foundation by adding online services. Having such flexibility and being able to adapt to technological change is the primary factor behind the accelerating growth of small entrepreneurial businesses. Government should promote the growth of small businesses – especially innovative small businesses that seem likely to grow – but it also needs to assist big businesses in coping better with change, development, and competition. Large companies should embrace the entrepreneurial way of thinking.

Characteristics of Entrepreneurs

Entrepreneurs are both born and made. They are a product of their personal characteristics and their environments. Entrepreneurs know how to respond to the business setting that affects their goals. In general, they are flexible, creative and realistic. They learn from experience. Entrepreneurs tend to be goal oriented rather than procedure oriented; they are more intent on getting things done than on how things get done. They frequently pay too much attention to action and do not give sufficient effort to planning. Entrepreneurs need plans as a basic structure, but they must try to anticipate problems, even far-out issues, and to build flexibility into their plans.

> "Large organizations are desperate to learn from the entrepreneur and become more entrepreneurial themselves."

The world of the entrepreneur, in a small business or a large one, is never problem free. In big companies, entrepreneurs often encounter obstacles when they want to move beyond set procedures. Those managers who have entrepreneurial personalities often come to recognize that the security and structure of a larger business may come at the cost of spontaneous action, and they must be able to judge which bureaucratic procedures are holding back innovation and which ones work. Entrepreneurship depends on change, which is why it seems to be a more natural fit for a newer, probably smaller, business.

Managing Change

Figuring out how to change an organization when change is advisable, necessary or inevitable is an immense managerial challenge. History is riddled with the remains of large organizations that failed to adapt. People resist change when they feel it will hurt them, when circumstances force them to change, and when the change alters their longstanding habits and relationships. Employees also fight reform when they don't understand its advantages – usually due to poor communication from their managers – or when the company has not adjusted its internal structure and rewards systems to fit a new situation. To avoid roadblocks, managers should address the cultural aspects of organizational shifts.

> Entrepreneurs "shape the organization they start up. They dominate it to the extent that it takes on many of their characteristics."

To manage change effectively, consult with your staffers, ask for their input and explain the need for change. Subordinates are more likely to buy into change that emerges from a "shared vision of the future." To earn employee support, clear results must materialize right away, so do what has to be done in the short term, and do it quickly. You will face both political and organizational needs and personnel needs when you manage change. Identify staff members who are likely to resist, and work to win them over, isolate them, or remove them. Bring internal or external change agents into the arena.

> "Some of the personal characteristics of entrepreneurs are unwelcome as the organization grows. In particular, entrepreneurs are reluctant to delegate, and this can inhibit growth."

New CEOs who must confront the reality of change and the need for fast action often act in a "dramatic, symbolic" way by replacing their inherited management team to gain a new perspective. When you institute a change, garner political support from your stakeholders – employees, shareholders, suppliers and customers – early. Use a task force to implement change. Monitor the process, since midcourse corrections are almost inevitable.

> "In the last 20 years entrepreneurs establishing new firms have done more to create wealth than firms at any time before them – ever!"

Louis Gerstner, the CEO who turned IBM around in the 1990s, decided management had to communicate a vision to IBM employees – not just explaining where IBM had to go but offering assurances that it could get there. The firm conveyed the need for change and boosted workforce confidence that it could achieve real reform. IBM became more responsive to its market and, after a hiatus, again emerged as a major competitor.

Managing Entrepreneurs

Use a "light touch" to manage entrepreneurial individuals. Give them the power to make decisions in the context of keeping their managers informed and following general corporate policy. Entrepreneurial staffers seek as much independence as possible, but managers also need methods for linking them more firmly to the organization, financially and psychologically. Create a culture that gives people the feeling that they can accomplish what they wish and that the company will embrace their achievements.

> "Intrapreneurs are results-oriented, ambitious, rational, competitive, and questioning, and must be adept at handling conflict and the politics of the larger organization in which they operate."

Large companies should learn from their in-house entrepreneurs (called "intrapreneurs") and adopt an entrepreneurial spirit. That's why keeping entrepreneurs in the fold is worth the effort; or else they'll leave to start their own businesses. Relationships are central to the entrepreneurial approach to business, although an independent entrepreneurial personality is not always a perfect personnel fit in a growing business.

> "Effective teams...do not just happen, they have to be developed, and that can take time."

Leading and managing organizations require distinct but related skills. A large business needs effective leadership and effective management, however, both skills require accepting mutual goals. Leaders create strategy, set a direction and motivate people. A leader should communicate a vision and the steps needed to reach it, think strategically, develop the corporate culture, and encourage top performance. Leaders trust managers to carry out the company's objectives and to treat employees fairly. Trust is the basis for teamwork. Managers, in contrast, focus on the work needed to carry out the vision and strategy. At times, they must "give up control in order to gain control" by letting employees act. One significant way is to lessen strict budgetary controls in exchange for a better information flow, up and down the ladder. The motto of this management style is "keep me informed." Employees know their managers will hold them accountable for results. Carrying out instructions, regardless of the outcome, is not sufficient.

> "Trust is the cornerstone of a good team and the cornerstone of an effective organizational culture."

Corporate culture describes the basic beliefs and assumptions within a company and about a company – what it is trying to do and what is acceptable for it to do to achieve its goals. A truly entrepreneurial organization needs an appropriate corporate culture, starting with adaptability, which can make the difference between failure and success. Flexibility is a survival skill at any time, not just in an uncertain business environment. Corporate culture evolves and changes over time, but not in a vacuum. The dominant national culture has a strong influence on the culture within a company.

Corporate Structure and Strategy

An organizational structure creates order and provides the foundation for people to operate. No single structure is best; different purposes require different structures. Smaller units can be more adaptable. Frequently, corporations create several small, semi-independent units to achieve flexibility within the scale, security and resources of a big organization. Structures in a company also evolve and change as circumstances shift.

> "The strategic process is more of a distinguishing feature of an entrepreneurial organization than the actual strategy it adopts."

Strategically, a company can grow in four ways: entering a market by selling more to existing customers and finding new customers, developing new products, developing new markets within existing product areas, or diversifying into new areas. Perhaps the most effective strategy combines all four. To advance, companies must build on their strengths and competencies, shore up their weaknesses, and develop a realistic marketing strategy for each product and market. Whichever strategies you prefer, stay flexible enough to adapt to new ideas from your intrapreneurs. Channel them to focus on priority areas.

Encouraging Invention and Creativity

Invention and creativity, the "soul of entrepreneurship," provide the raw materials for innovation. The primary task for any organization is to encourage individual creativity and to find ways to translate it into market value. To have practical meaning, innovation has to fill customer demand. McDonald's found new ways to market hamburgers, but that achievement would have accomplished little if people did not want hamburgers. However, letting your employees know that the company recognizes, appreciates and rewards creativity is critical, even if their creative efforts have no immediate use.

> "Establishing an appropriate corporate culture is vital if you want to development an entrepreneurial organization."

Innovation includes presenting new products, services or methods; opening new markets; finding new supply sources; creating new types of organizations; or improving processes or procedures. It covers finding fresh ways to respond to the market or to create a market for new products. Truly effective innovation combines several areas – such as finding new ways of selling new products. Amazon used the relatively new method of Internet marketing to sell an old product, books, and a new product, e-books.

> "Cultures evolve over time under a multitude of influences. Cultures therefore change over time and can also be shaped and influenced over time."

The best way to run an innovative firm is not to say how things should be done – that is, outlining the task – but to say what should be done – that is, establishing the mission – and to let your employees decide how to carry out that mission. Setting a vision and offering guidance is more important than command and control. Invention and innovation go together. Invention requires innovation; innovation is necessary to find a practical use for invention. Encourage both. Give your employees a stake in the results.

> "We learned the importance of ignoring conventional wisdom...It's fun to do things that people don't think are possible or likely. It's also exciting to achieve the unexpected." (Michael Dell)

On the other hand, to discourage innovation, stifle creativity, undermine invention and protect the status quo, just approach new ideas with suspicion, set up cumbersome rules, encourage destructive competition, criticize but do not praise, treat problems as failures, micromanage, reorganize in secret, conceal information, delegate unpleasant tasks, and assume that the manager knows everything. Instead of making these mistakes, heed the experiences of big, successful innovative companies, which share six traits:

1. **“Atmosphere and vision”** – The corporate culture cherishes innovation and knows that it matters. This requires a dedicated leader who encourages ongoing innovation.
2. **“Market responsiveness”** – The leader’s dream of the future must mesh with “the reality of the marketplace.” The company works to foster lengthy relationships with long-time customers.
3. **“Small flat organization”** – Innovative companies use “multidisciplinary” teams to handle projects and bypass bureaucratic processes.
4. **“Skunkworks”** – Small teams work “outside traditional lines of authority” to cut through layers of red tape. Their agility reduces bureaucracy and bolsters efficiency.
5. **“Multiple approaches”** – Taking on several jobs at once is tricky, especially when they cluster together, but testing a few possibilities simultaneously leads to quick “learning by doing.”
6. **“Interactive learning”** – Cut through divisional barriers and soak up information. Demonstrate best practices wherever you can.

About the Author

Paul Burns is professor of entrepreneurship and dean of the University of Bedfordshire’s school of business in the United Kingdom. He is a former visiting scholar at Harvard Business School.