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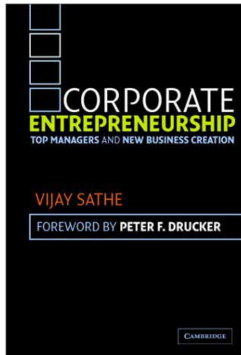

Corporate Entrepreneurship

Top Managers and New Business Creation

by Vijay Sathe
Cambridge University Press © 2003
406 pages

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Take-Aways

- Large organizations can innovate.
- Entrepreneurship in large organizations requires top-level leadership.
- Nations need entrepreneurial corporations.
- Entrepreneurship is risky, and customary corporate controls work against it.
- It is better to encourage numerous small entrepreneurial projects than one big one.
- Customers can both drive and discourage corporate experimentation and entrepreneurship.
- Large financial rewards are often unnecessary and may in fact discourage corporate entrepreneurship.
- Successful, entrepreneurial division general managers tend to be thoughtful, assertive, self-confident, intuitive extroverts.
- A diversified portfolio of old and new businesses helps divisions withstand the volatility and risk of new business development.
- Allocating too much money can be as dangerous to new businesses as allocating too little.

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	**7**	**8**	**8**

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Relevance

What You Will Learn

In this Abstract, you will learn 1) How big organizations can be entrepreneurial; 2) Specific policies leaders use to foster entrepreneurship; and 3) The fiscal controls that encourage new business development.

Recommendation

This solidly researched, well-written book makes a sound case for an unconventional view of corporate entrepreneurship. Author Vijay Sathe contends that the archetype of the lonely, low-level corporate entrepreneur is a fantastic, fairy-tale critter. In fact, entrepreneurship and new business creation happen in big organizations only when corporate leadership fosters it through a mix of principles and policies. Sathe grounds his case in a detailed exposition of experiences at major corporations, and carefully considers the evidence before pronouncing any judgment. Unlike many authors of books on this subject, Sathe seems both intellectually honest and genuinely interested in nailing the truth, not in hawking a nostrum. If the book has any flaw, it is that the author takes more pains than necessary at points, and presents more detail than the reader needs. That is not a grievous fault, and *getAbstract.com* finds it very easy to forgive.

Abstract

Entrepreneurship

The public is fascinated with entrepreneurs — usually the lone-genius types, the Jeff Bezos or Steve Jobs or Bill Gates who starts with just an idea and a lot of grit and goes on to change the world and build a great business. That model isn't all wrong. There is, after all, an Amazon.com, an Apple and a Microsoft.

"Three indicators reveal the extent of emphasis on new business creation: money invested, time invested, and size of the new business creation pipeline."

But the stereotypical lonely entrepreneur is decidedly out of place in a large organization. Oddly, perhaps, the public stereotype of the employee or executive of the big corporation is negative. In the past, that stereotype was "the man in the gray flannel suit." More recently, the stereotype is of a number-juggling financial fraudster.

That's unfortunate, because the economy depends greatly on innovation by large organizations. But the public isn't entirely wrong when it stereotypes the corporate manager differently than the entrepreneur. In fact, entrepreneurship requires a philosophy, skill set and methodology different from that required by ongoing management.

"Top managers with successful new business creation track records do several things differently than the others — not because they are geniuses, but because they have played this game long enough to know what is necessary to achieve success."

These are the fundamental truths of corporate entrepreneurship:

- The failure rate is high and effective controls are necessary.
- The prospect of windfall financial rewards may actually discourage success.
- Top managers face a dilemma when they try to both manage ongoing businesses and create new businesses. But segregating the two tasks gives rise to other problems.
- A portfolio of many small initiatives will usually offer more chance of success than a few big, focused initiatives.
- Consistency counts.
- The process of new business creation requires disciplined management.

"New technology spurs innovation, but it is difficult to foresee its effects."

The internal and external business environment can make an entrepreneurial project more or less likely to succeed. External factors include customers, regulations, the existence of industry standards, general economic conditions and so on. Internal factors include the number of other projects demanding attention and resources, the financial performance of the ongoing business and various types of organizational bias.

Champions, people who believe firmly in a new initiative, help turn ideas into reality with the help of sponsors, often division managers who provide resources and organizational support. It may seem counter-intuitive, but champions do not necessarily need the incentive of enormous financial payoffs. If the appropriate corporate atmosphere is in place, people would rather innovate than not innovate.

For senior executives, the entrepreneurial mantra ought to be "small is beautiful." A multitude of small initiatives will probably result in a few very successful new businesses.

Corporate leadership should look to the division as the main driver of entrepreneurial success. This means appointing the right division manager, and letting that manager do the job. An entrepreneurial division general manager (DGM) will usually resent being told what to do. But if corporate leaders can challenge their managers' thinking constructively, they can make a useful contribution.

"Successful new business creation requires a consistent and mutually reinforcing set of philosophies, beliefs and practices."

Consistency

Consistency means that the emphasis on new business creation is sustained over time. It is not merely an emergency reaction to a fall-off in existing business. Consistency counts because it gives new initiatives the time they need and it helps develop momentum, skills and experience that can help second-generation ventures.

However, as valuable as consistency is, it may be hard to generate because:

- Management turnover, change and reorganization create turbulence.
- The culture may not be steeped in the attitudes that new business needs.
- Changing priorities and personnel at the division level may fail to pay sufficient attention to new business.

Business Environment

The business environment can help or hinder the creation of new business, in the corporation's internal environment and in its external environment. Events that will possibly have an external impact on new business creation include:

- Customers may not accept the innovation, and this hurts its prospects for success.
- Suppliers may, by their own innovation or failure to innovate, smooth or block the course.
- Product liability fears can dampen prospects for new products.
- Industry standards, new technology and industry rivalries can encourage innovation.

"Contrary to popular opinion, financial incentives are not needed to promote corporate entrepreneurship if the right management culture prevails."

Some internal factors may also drive or hamper success:

- Fear of cannibalizing existing products may discourage innovation.
- Successful, growing businesses may not see the need for new business creation.
- Management may choose to invest or to deny needed resources.
- New businesses may help spur sales in existing product lines.

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Culture and Creation

Several interesting and decidedly counter-intuitive facts explain the way that managerial culture affects innovation. These factors illuminate the cultural principles that are the most effective at encouraging entrepreneurship. The right culture for corporate entrepreneurship will strike a balance without listing dramatically from extreme to extreme. It is steady, stable, reliable and predictable. It provides an environment in which people know what is expected and don't have to wonder what the boss's priorities are.

"New business creation is facilitated if people believe they have the right to pursue their business convictions."

Some facts about culture and entrepreneurship include:

- Enormous financial rewards can be counterproductive, because they generate envy and discourage the kind of cooperation that corporate entrepreneurs need from others in the organization.
- A culture in which people understand that corporate entrepreneurship is not personally risky fosters new business development.
- Corporate taboos, usually based on past failure, can discourage people from even pursuing potentially profitable businesses.
- A culture in which people succeed by correctly guessing what the boss wants is not conducive to new business creation.
- Entrepreneurs are nurtured by a management culture that encourages people to use their best judgment and do what they are convinced is (in a business sense) right.
- Allowing people to bend the rules encourages new business creation. This does not mean norms of ethics and integrity, but rather bureaucratic and procedural rules.

"3M's experience shows that control is not the enemy of entrepreneurship."

Motivating the Entrepreneurial DGM

Entrepreneurial Divisional General Managers (DGMs) have strong personalities. They are sound organizational players, but they bristle when you tell them what to do. They tend to be extroverted fact-based thinkers rather than feelers. And, a thoughtful manager who has a record of successful experience with new business is more apt to try again. But because there is always risk involved in a new initiative, effective entrepreneurial DGMs also know their own corporate culture, understand how to build credibility and clout within it, and take this political work seriously.

"Managers with long experience in new business creation learn to expect fairly modest success rates."

An effectively entrepreneurial general manager may build new businesses for several reasons:

- Broad industry experience and contacts leave no doubt that the new business will better serve customers or more effectively thwart competitors.
- Organizational factors — the boss may demand it or new business may help the organization avoid downsizing — can be a powerful motivator.
- Personal reasons, such as a desire for prestige or the drive to prove something, can sometimes lead a DGM to put job, promotions and career on the line to back a new initiative.

The DGM has a complicated and challenging political role. In addition to managing up, building higher-level support and accumulating political capital, the DGM must also turn the division into a seedbed of new businesses. Among the requirements of that task:

"DGMs with prior new business creation experience are more likely to do it, and do it well."

- Converting people to the gospel of new business creation — one at a time, if necessary.
- Repeatedly communicating the new business vision.
- Providing reassurance and encouragement when setbacks happen.
- Being an educator, coach and mentor.

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- Getting the right people into the right jobs.
- Getting rid of people when necessary.

"DGMs make two kinds of mistakes in appointing people: they hire in their own image; and they hire people based on friendship and loyalty rather than finding the best person for the job."

Sources of Opportunity

New business ideas and opportunities come from various sources. Sometimes, you find a new business opportunity by dusting off an old, discarded idea and seeing that it was really gold. Sometimes, a deep dive into market and competitive intelligences will provide the data necessary to see a new business opportunity.

Companies that test new ideas with market research are often unaware that market research can be very misleading. The annals of corporate innovation are full of successful projects that market research indicated would fail — and of failures that market research flagged as probable successes.

Ultimately, the best test of a new opportunity is a relationship with the customer that is so close that it leaves no room for doubt or error about what will work.

Conclusion

Creating new business is one of the hardest and most necessary jobs facing corporations. Those that succeed have a culture and philosophy that supports innovation and experimentation. In those companies, people don't have to take a big personal risk in order to test an idea. Managers reward experimentation and don't penalize failure. The rewards aren't Silicon Valley payoffs, which tend to be counterproductive, but corporate expressions of appreciation and support. The most valuable single individual in the corporate entrepreneurship show is the Divisional General Manager. It is the DGM who must build a bulwark of organizational and political support for new ideas, while motivating the people in the division to keep creating.

"The DGM should be kept in place at least three to four years in most cases."

About The Author

Vijay Sathe is Professor of Management at the Peter F. Drucker Graduate School of Management at Claremont Graduate University, California. He wrote *Controller Involvement in Management* and *Culture and Related Corporate Realities* and co-authored *Organization.*

Buzz-Words

Champion / **C**onsistency / **D**ivisional General Manager (DGM) / **I**nitiative / **S**ponsor

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