Right Entrepreneurial Stuff

Corporate America needs to rediscover its roots to regain competitive advantage

BY WARREN R. STUMPE*

"Anyone with a bright idea can start their own business. But to make that idea work within the corporate structure — Ah — that takes the right entrepreneurial stuff!"

Corporate America continues to search for the key to successfully competing on a global basis. Is it our capital resources; our labor base; our research and technology capability? All are important, but I am persuaded that our future industrial success may lie in a unique American trait — our innovativeness and entrepreneurial spirit.

The great number of new business startups that occur yearly attest to the presence of a great entrepreneurial spirit and culture within our society. But somehow we have failed to transfer this entrepreneurial spirit and culture into Corporate America. Contrariwise, as the smaller, exciting, entrepreneurial start-up company grows to large size, it often dulls and metamorphizes into a stodgy, bureaucratic organization where entrepreneurship is about as welcome as a rabbit at the Planned Parenthood meeting.

Peters and Waterman said it well in their recent best seller, *In Search of Excellence.*

> *"The major reason big companies stop innovating is their dependence on big factories, smooth production, integrated operations, and rigid strategic direction setting. They forget how to learn and they quit tolerating mistakes. The company forgets what made it successful in the first place, which was usually a culture that encouraged action, experiments, repeated tries."*

I contend that now is the time for Corporate America to rediscover its roots and to recreate the entrepreneurial culture where American innovativeness can take hold and flourish. It is no coincidence that the companies cited for excellence in *In Search of Excellence* all practice corporate entrepreneurship in one form or another. Even IBM took the entrepreneurial plunge by making an end run around its own bureaucracy to bring out its very successful line of personal computers. My own company, Rexnord, has long prided itself in encouraging an entrepreneurial culture where, within a "greenhouse"-type environment, corporate entrepreneurs can exercise innovative talents with the spirit and freedom normally found only in the small company.

What we need is a good dose of the "right entrepreneurial stuff" functioning within the corporate culture. We must coax the corporate entrepreneur out of the closet to step up to the challenge. The entrepreneurial capability is there in large measure within a variety of corporate disciplines from engineering to marketing to finance and beyond. All we need is the supportive corporate culture to have it blossom forth and grow.

THE R&D CHALLENGE

One of the great untapped sources of entrepreneurship in large companies is the R&D department. If this seems like a far-out assertion, think of it this way: Who better to transfer technology from the laboratory to the marketplace than the people who created the technology in the first place.

Three simple strategies drive many successful R&D organizations:

1. R&D must be in the main stream. Today's successful R&D team provides direct support to day-to-day operations, participates in the development and implementation of long-term business strategies, and continually probes the future where technology of interest is being created. Ivory towers R&D'ers, located in some pristine wilderness lab unexposed to the realities of business, are predictably disappearing from the Corporate America scene.

2. R&D should blend technology with marketing, manufacturing and financial insights. Like any successful business, the successful R&D organization provides a blend of technical, marketing, production, and financial know-how. It is no surprise that the most creative R&D teams combine a fine understanding of what is going on in technology with an understanding of the needs of the marketplace and how to satisfy them cost effectively.

3. R&D success is measured by commercial success in the marketplace. Research directors sooner or later succumb to that Freudian complex of P&L envy and like Diogenes' searching for an honest man, constantly look for a method to quantify R&D effort. The truth is that R&D results are best measured by results in the marketplace — sometimes directly by individual project — but mostly indirectly through the success of the overall enterprise.

Within this last strategy lie the seeds of entrepreneurship. What better way can the R&D organization prove its

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value than by bringing its own creations successfully to the marketplace? The history of R&D is replete with abandoned projects labeled "technical success—marketing failure."

The difference can easily be a dose of entrepreneurship provided by R&D. After all, research work in a climate of creativity, innovation, and risk assumption is not too different from an entrepreneurial climate. The one lacking ingredient is motivation — an especially tough hurdle in Corporate America where incentives are often to avoid expenditures to build long-term leadership positions through entrepreneurial activities but even to liquidate leadership positions in order to maximize short-term profits. It is sad but still true that one finds a philosophy described as:

"It's not whether you win or lose that counts,
it's how you place the blame."

I conclude that the "right entrepreneurial stuff" can be found in good measure within the R&D community where capability and motivation abound. The best way to build a credible base is by hitting a few "singles" rather than by swinging for the bleachers and the "home run."

Within the R&D culture, this may not be easy. We are often attuned toward the big breakthrough — "The Nylon Syndrome" — where the whole future of the corporation can be changed. Researchers dream of the honor awaiting at an Annual Shareholders' Meeting culminating in their being carried off in glory on the shoulders of the stockholders.

Rather than entertaining this unrealistic daydream, effort should be placed on extending the development cycle to include entry into the marketplace. Sufficient funding should be committed initially to complete not only the technical development, but also the commercial development. Success demands the funding of commercial development as vigorously as technical development.

Endless Possibilities

From small success can grow large opportunities. From a new product success can grow new business building, equity investing in entrepreneurial start ups, and acquisitions in new endeavors. The possibilities are endless. Even old, staid General Motors has joined the entrepreneurial fray with a $2.5 billion acquisition of Electronic Data Systems Corporation as well as equity investments in five high-technology companies specializing in machine-vision systems. Chairman Roger Smith puts it this way: "We just bought ourselves into a slam-bang growing industry."

The research and development process that Corporate America followed for many years has really been changed to research and innovation — research to acquire the technology necessary for business success, and then innovation to achieve commercial success by exploiting all the appropriate entrepreneurial approaches.

Will there be failures along the way? Of course. Failure is part of the game. The truly successful in the research-innovation-entrepreneurial culture understand one important dictum — "Quit While You're Still Behind." The ability to recognize failure before it becomes disaster separates the successful corporate innovator/entrepreneur from his unsuccessful counterpart. Corporate America seeking the "right entrepreneurial stuff" would do well to emphasize in their selection process of corporate entrepreneurs, the ability to recognize failure and be unafraid of its consequences.

AN ENTREPRENEURIAL SCORECARD

To assist Corporate America in evaluating their entrepreneurial culture, I offer the following 10 "Management Queries on Entrepreneurship," complete with a scoring system, as follows:

Score each query between 0 and 10 as follows: 0 - Hell No; 3 - No; 5 - Sometimes; 7 - Yes; 10 - Hell Yes.

Query 1 — Can you accept that the entrepreneurial management of innovation is truly different from the management of day-to-day continuing operations?

Scoring: If you understand that managing innovation requires unique leadership skills of vision and risk-taking truly different from the administrative skills of running a mature business, score yourself high!

Query 2 — Can you provide a flexible structure of operating methods and procedures to accommodate the maverick innovator and entrepreneur?

Scoring: If you are willing to accommodate the often disruptive entrepreneurial leadership in your corporate culture, score yourself high!

Query 3 — Can you accept the inability to quantify innovation activity in its initial stages?

Scoring: If every innovative activity must pass the "hurdle rate" and other financial measurements from its inception, score yourself low!

Query 4 — Can you identify the "zealot" who will lead your innovation activity?

Scoring: If a champion is selected and identified — and supported, score yourself high!

Query 5 — Can you identify the senior executive champion who "has been there before"?

Scoring: If a senior executive who can run interference through the culture is know, score yourself high!

Query 6 — Can you provide a good reward system?

Scoring: If you are willing to provide a unique reward system different from the normal reward system — such as a "piece of the action," score yourself high!

Query 7 — Will you make a long-term (36 months) commitment for resources?

Scoring: If you will turn the resource spigot on and off over several budget periods, score yourself low!

Query 8 — Do you understand that while normally markets make successful products — sometimes products can make successful markets?

Scoring: If your only measure is market analysis without independent vision, you have forgotten the lessons of xerography and computers, score yourself low!

Query 9 — Do you create the proper communication/environmental climate across organizational boundaries to insure full use of experience and problem solving capability?

Scoring: If you ignore organizational compartmentalization and bring to bear the knowledge and experience useful to the process wherever it might be found, score yourself high!

Query 10 — Do you recognize the right to fail?

Scoring: If you understand that the ultimate sin is not

failure, but is a lack of trying, and that people who are not allowed to fail will rarely, if ever, try, score yourself high!

Now, add up the score:

Between 70-100 — You have all the ingredients for success in the innovative/entrepreneurial process — go for it!

Between 30-70 — There's still hope that with some new effort and understanding, entrepreneurship and innovation can begin to play a role in your culture.

Between 0-30 — Your whole corporate culture has to be rebuilt. It might be better to invest in a sizable entrepreneurially-oriented acquisition that can stand by itself, and build from that base!

KEYS TO SUCCESS

For corporate entrepreneurs themselves, let me offer three keys to success:

Key 1 — Start Small and Build on Success

Whoever first said, "Nothing succeeds like success," was absolutely right. Winning is contagious, but so is losing. Success at a small level can lead to opportunities for success at a much higher level.

Key 2 — Be a First-Stage Reusable Rocket

If your talent and desire are in initiating the entrepreneurial process and building it to a critical mass, never be afraid to let go. Let others with their unique talents, take your "baby" to new objectives while you return to the launch pad for your next entrepreneurial endeavor.

Key 3 — To Be Successful, Make Others Successful

Success has many fathers, but failure is an orphan. Success is always a team effort, and the future depends upon making the total enterprise successful.

Over the next 25 years, American corporations that achieve success will be run by managements that can create a culture where the innovator and entrepreneur can thrive and grow—a culture to invest, to innovate, to create value where none existed, and to create a competitive advantage in delivering that value. The future of Corporate America may well depend on it!