Entrepreneurship and Innovation Lecture 7 2014

Entrepreneurship within large organisations

Entrepreneurs and Intrapreneurs

Question : Do we find entrepreneurial types inside large organisations?

Entrepreneurial types *are* found inside large organisations, not only in start-up and growing SMEs. **Pinchot** (between 1978 and 1985) coined the term "intrapreneur". These individuals show many entrepreneurial traits, yet are able to operate inside large organisations. They are often the source of creativity and new ideas and innovation. Some large companies make room for them in special teams.

The Intrapreneur's Ten Commandments

1	Remember, it is easier to ask for forgiveness than for permission.
2	Do any job needed to make your project work, regardless of your job description.
3	Come to work each day willing to be fired.
4	Recruit good help and support.
5	Ask for advice before resources.
6	Forget pride of authorship, spread credit widely.
7	When you bend the rules, keep the best interests of the company and its customers in mind.
8	Honour your sponsors.
9	Under-promise and over-deliver.
10	Be true to your goals, but realistic about ways to achieve them.

Pinchot & Company – 1999 Bainbridge Island, WA - www.pinchot.com

Question: How should a large organisation treat employees who adopt the approach above?

Comparison of Entrepreneurs, Intrapreneurs and Traditional Managers

Hisrich, R & Peters, M (2002) "Entrepreneurship", 5th ed, McGraw Hill

	Traditional Managers	Entrepreneurs	Intrapreneurs
Primary motives	Promotion and other traditional corporate rewards, such as office, staff and power	Independence, opportunity to create, and money	Independence and ability to advance in the corporate Rewards
Time orientation	Short term-meeting quotas and budgets, weekly, monthly, quarterly, and the annual planning horizon	Survival and achieving 5- to 10-year growth of business	Between entrepreneurial and traditional managers, depending on urgency to meet self-imposed and, corporate timetable
Activity	Delegates and supervises more than direct involvement	Direct involvement	Direct involvement more than delegation
Risk	Careful	Moderate risk taker	Moderate risk taker
Status	Concerned about status symbols	No concern about status Symbols	Not concerned about traditional status symbols-desires Independence
Failure and mistakes	Tries to avoid mistakes and surprises	Deals with mistakes and Failures	Attempts to hide risky projects from view until Ready
Decisions	Usually agrees with those in upper management positions	Follows dream with Decisions	Able to get others to agree to help achieve dream
Who serves	Others	Self and customers	Self, customers, and Sponsors
Family history	Family members worked for large organizations	Entrepreneurial small-business, professional, or farm background	Entrepreneurial small-business, professional, or farm background'
Relationship with others	Hierarchy as basic relationship	Transactions and deal making as basic Relationship	Transactions within Hierarchy

Source: an extensively modified version of table in G. Pinchot (1985) *Intrapreneuring*, Harper & Row, N.Y., pp54-56

Growth in organisations

Greiner (1972) proposed a development model of the stages of evolution and revolution as an organisation grows in his classic HBR article*, Organization Evolution and Revolution* – this was updated in 1999.

1.	Creativity phase,	disrupted by a leadership crisis
2.	Direction phase,	disrupted by a crisis of autonomy
3.	Delegation phase,	disrupted by a crisis of control
4.	Coordination phase,	disrupted by red tape
5.	Collaboration phase,	disrupted by?

1 Growth through creativity

Early stage, simple form, close knit team.
Then a *crisis of leadership*, business can no longer be managed in a highly personal way.

Perhaps management becomes professionalised, by recruiting outside managers.

2 Growth through direction

Management is now professionalised, specialised functions, more formal systems, company grows in a more centrally directed way.

Then a *crisis of autonomy*, as business gets bigger, individuals feel restricted by the hierarchy, the top finds it more difficult to maintain detailed control.

Perhaps change formal structures and decentralise (goes in phases).

3 Growth through delegation

Leads to a *crisis of control*. Top feels it is losing control and parochial attitudes develop in different parts of the company.

Perhaps instal systems for greater coordination & cooperation.

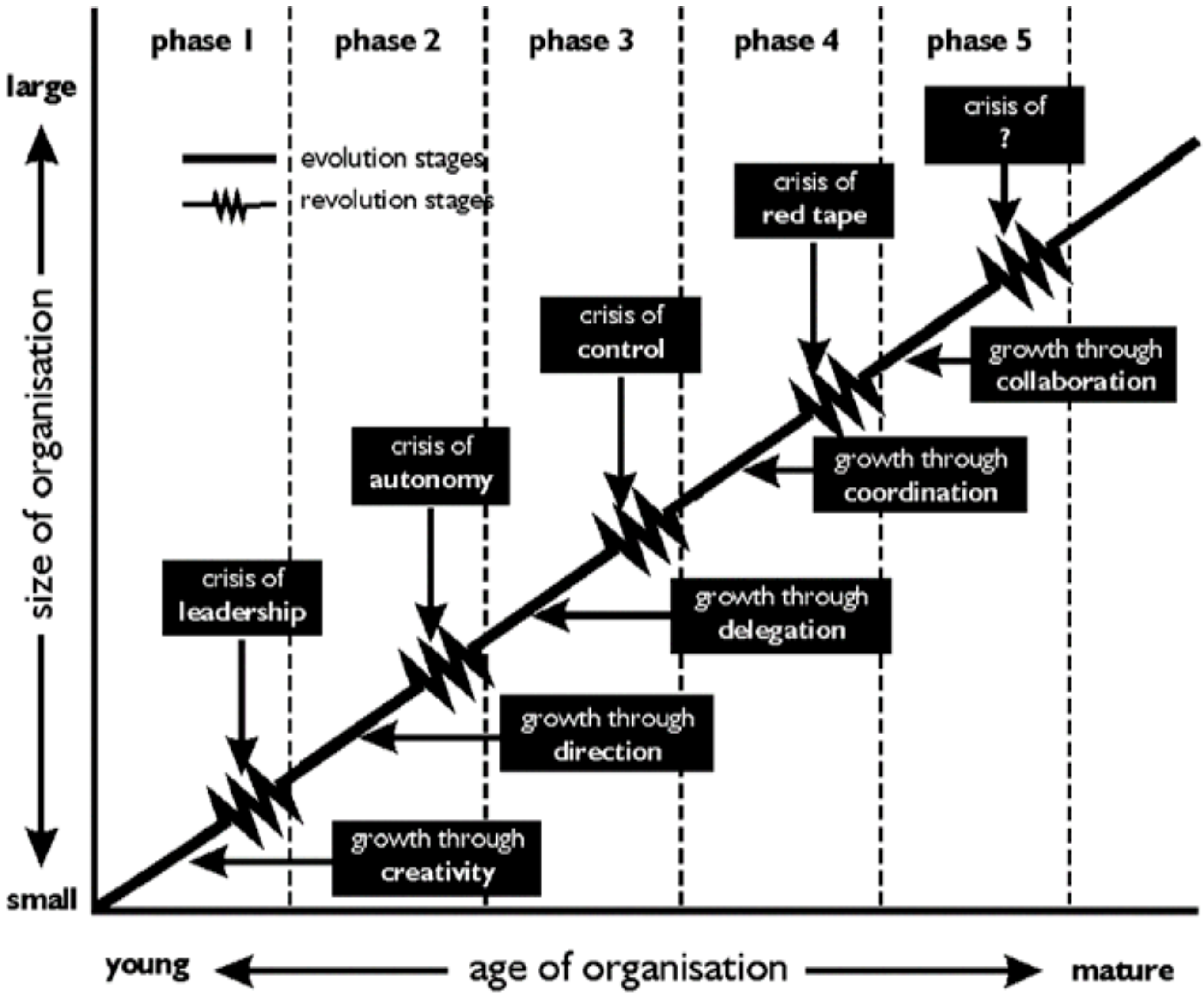
4 Growth through coordination

As it grows larger & more complex, bureaucratic controls create sharp divisions between head office and staff, leading to a *crisis of red tape*.

Perhaps replace controls with strong interpersonal collaboration.

5 Growth through collaboration

Greiner suggests that the next crisis is one of "psychological saturation" in which all become exhausted by teamwork. He suggests that a 6th growth phase may involve a dual organisation – a "habit" structure for daily work routines and a "reflective" structure for stimulating new perspectives and personal enrichment.



This model is of course takes only an **<u>organisational</u>** context. Growing firms will also face **market** and **financial** and other challenges.

Question: If the firm becomes a large organisation and reaches maturity, what happens next?

Stephenson identifies tensions and paradoxes in terms of managerial behaviours in his Six Dimensions:

The Six Dimensions of Entrepreneurship
Howard Stephenson (see separate extract)

"Entrepreneurship is neither a set of personality traits nor an economic function. Rather it is a cohesive pattern of managerial behaviour that can be measured"

Stephenson's six dimensions:-
"Entrepreneurship is an approach to management *….. the pursuit of opportunity without regard to resources currently controlled*".

1 Strategic orientation
2 Commitment to opportunity
3 Commitment of resources
4 Control of resources
5 Management structure
6 Reward philosophy.

Entrepreneurship is an approach to management that we define as *the pursuit of opportunity without regard to resources currently controlled.*

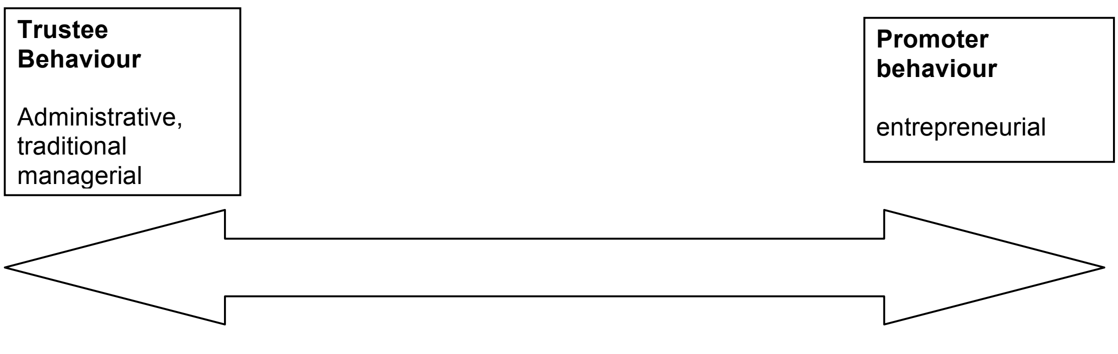
The description can be refined by examining six critical dimensions of business practice: **strategic orientation; commitment to opportunity; commitment of resources; control of resources; management structure; and reward philosophy**. We shall define these dimensions by examining a range of behaviors.

At one extreme is the "promoter," who feels confident of his or her ability to seize an opportunity regardless of the resources under current control. At the opposite extreme is the "trustee," who emphasizes the efficient utilization of existing resources.

While the promoter and the trustee define the end points of this spectrum, there is a range of managerial behavior that lies between them, and we define (overlapping) portions of the spectrum as entrepreneurial and administrative behavior. Thus, entrepreneurial management is not an extreme example, but rather a range of behavior that consistently falls at one end of the spectrum.

Cited in: Birley, S. & Muzyka, D. (2000) Mastering Entrepreneurship, FT Prentice Hall

Stephenson's spectrum of managerial behaviour within one organisation:-



Question: apply this framework of six dimensions and the spectrum to your own organisation.

Question: which departments are more likely to show "promoter" behaviour and why?

Question: which departments are more likely to show "trustee" behaviour and why?

Question: How do large organisations maintain the entrepreneurial drive or re-establish entrepreneurism?

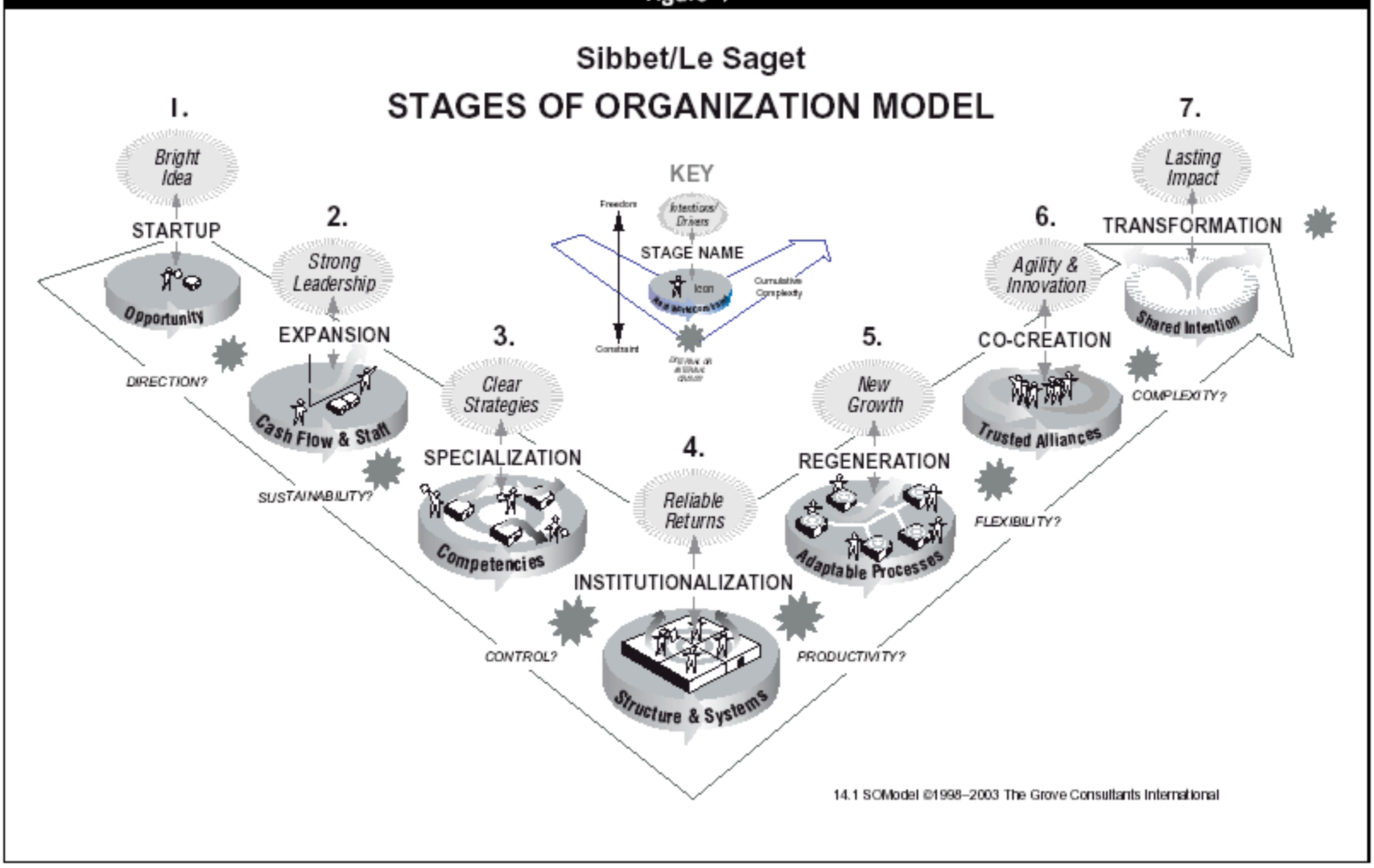
Updating the Greiner and other frameworks:-

Sibbet / Le Saget (2003) STAGES OF ORGANISATION MODEL

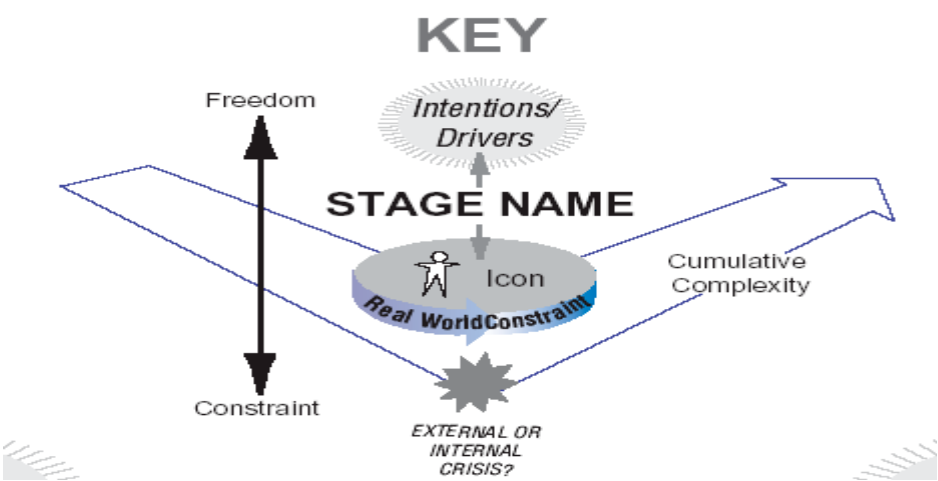
David Sibbet(2003) Archetypes of Sustainability - Toward a Hopeful Paradigm of Organization Development, OD PRACTITIONER, VOL. 35, NO. 3|

This model goes beyond the Greiner model and its maturity final stage. Here we consider how to re-energise a large firm so that it regains some entrepreneurial attributes.

Figure 4



http://www.grove.com/new/pdf/ArchetypeSustainability.pdf



Question: How do large corporations re-introduce the enterprising spirit?

Skunkworks Aug 25th 2008 From Economist.com

A **skunkworks** is a place (or sometimes the people who work in that place) designed to encourage the employees of large organisations to come up with original ideas. It usually consists of a small team taken out of their normal working environment and given exceptional freedom from their organisation's standard management constraints. The name is taken from the moonshine factory in a famous Al Capp cartoon series called "Li'l Abner".

All skunkworks are modelled on the Lockheed aircraft company's secret research-cum-production facility where, in the 1940s, staff were removed from the corporate bureaucracy and encouraged to ignore standard procedures in the hope that they would come up, in the first instance, with a high-speed fighter plane that could compete with those produced in Germany by Messerschmitt. So successful was the concept that the company continued with it, and its skunkworks came up with a number of other innovative products, including the notorious U2 spy plane.

The idea was soon copied by other large companies, including IBM, by then the largest of them all, although the name "Skunk Works" is a registered trademark of Lockheed Martin Corporation. In 1980 Big Blue used a skunkworks to break free from its suffocating mainframe mentality and join the world of the PC, at a time when many of its rivals were unable to make the switch.

The skunkworks concept fell into disrepute when it began to be seen as just another cost centre—and one with attitude at that. But in the new workplace of the 21st century, where there is a heavy emphasis on teamwork and the right environment for teams to flourish, the skunkworks idea is being revived, but in slightly different guise. Much of Motorola's Razr mobile phone, for example, was developed in a new laboratory that the company set up in downtown Chicago, 50 miles from its main R&D facility in suburban Illinois. With lots of bright colours and no dividing walls, the building and design of the laboratory's workspace were very different from Motorola's main offices.

But the company's expectations of what the skunkworks should produce were also different. It was not left alone to think lofty scientific thoughts, but was regularly kept in touch with marketing, design and accounting folk to keep its feet firmly on commercial ground. The idea is not (as it used to be) that those in the skunkworks emerge at the end of the day with something that makes their competitors say "Wow". The idea is that they come out with something that makes their competitors' customers say "Wow".

Some companies have adopted the skunkworks idea more widely. Malaysia Airlines, for example, has set up what it calls "laboratories", small groups of people brought together on an ad hoc basis to address specific issues—"raising revenues", for instance. The group stays together for a month or so, until it has fulfilled its agreed-upon "exit criteria". Working in a laboratory, says the airline's CEO, "is not a job; it's a calling".

Further reading

Bennis, W. and Biederman, P.W., "Organising Genius: The Secrets of Creative Collaboration", Addison-Wesley, 1997; new edn, Nicholas Brealey, 1998

Garnier's rules for innovators The Sunday Times November 27 2005

The Glaxo boss will tell the CBI that industry must not be afraid of failure — it can be the best way to learn. By Paul Durman

JEAN-PIERRE GARNIER is a big believer in innovation. He has to be. As chief executive of Glaxo Smith Kline, his company lives or dies by its ability to develop new medicines.

Drug companies must work constantly to **refresh their product portfolios**. Even the most successful drugs eventually lose patent protection, triggering a collapse in sales. Unless a company has promising new medicines to fill the gap, it will soon succumb to a takeover — as many have in the past. Driven by this logic, Glaxo routinely tops the research-and-development "scoreboard" produced by the Department of Trade and Industry. Last year it spent £2.8 billion on R&D — 10 times as much as eighth-placed Shell.

This commitment explains why Garnier has been asked to address the CBI's annual conference in London this week on the subject of innovation. Speaking to The Sunday Times this weekend, Garnier said companies could **not treat innovation as an optional extra**. "Either it's at the centre of your enterprise or it's not there," he said. "You can't do innovation on the side. You have to commit yourself entirely."

In the popular imagination, innovation is best understood as the creation of an entirely new product — whether a novel pharmaceutical, revolutionary car or ground-breaking gadget. Garnier said such big leaps forward were atypical. "It's not about some guy who shouts 'Eureka' and finds an iPod**. Innovation is a lot about unexpected occurrences and solving problems**."

It is also about a willingness **to learn from failure**, and an acceptance that some failure is inevitable. This is another hard lesson from the pharmaceutical industry, where nine out of ten drugs that enter clinical trials never make it to patients. Garnier cited an example from the motor industry. When Ford introduced the Edsel in September 1957, the mid-priced car was one of the most carefully researched products in commercial history. Yet it flopped with consumers. Ford had made the mistake of segmenting the car market by income level, said Garnier. "During their experiment and the failure that followed it, they realised that the market was a lifestyle market. It had nothing to do with income. Some people want to spend a lot on their cars even though they don't have a lot of money."

Garnier said Ford turned the Edsel experience to its advantage with the development of the Mustang, the four-seater sports car that enjoyed a wildly successful launch in 1964. Promoted as "the car designed by you", Ford sold 22,000 on the first day it was available, and by 1966 had shifted 1m. "If you want this kind of failed experiment to become a nurturing ground for innovation, you have **to allow for failure inside your organisation**.". This is not something that comes easily to big companies, where **organisational politics** often means that avoiding failure is the secure route to career progress.

"I think large companies and medium-sized companies tend to become more **risk-averse** and therefore they falter," said the Glaxo boss. "(Risk-taking) is poisoned by the layering of the organisation."

Glaxo suffered the consequences of this in its huge R&D organisation. When Glaxo Wellcome merged with Smith Kline Beecham five years ago, both companies were struggling to find enough new drugs.

To get the go-ahead for a new research project, scientists had **to secure approval at five or six different levels**. "It only took one 'no' for the idea to be shelved," said Garnier.

The response from Garnier and Tachi Yamada, his head of R&D, was to break Glaxo's sprawling research machine into **seven much smaller units**. These are the CEDDs, the Centres of Excellence for Drug Discovery, each focused on a particular therapeutic area, such as heart, respiratory or neurological disease. "The CEDDS don't have all these supervisors who can say no," said Garnier. "**Suddenly, more risk is being taken**."

The full benefits of this shake-up have yet to work their way through Glaxo's pipeline, since it takes years to turn a promising idea into a prescribable medicine. However, the early signs are encouraging. The number of products Glaxo has in late stage (phase II and III) trials has increased from 31 to 54 since 2001, and the number of phase II (or proof-of-principle) trials has more than doubled. Increasing confidence in the strength of Glaxo's future products has lifted its share price by 30% since the start of this year.

"True innovation has to be protected and cherished by the top of the company," said Garnier. "**The chief executive has to be a protector of these people (who are taking the risks of innovation)**. I call people at very low levels on projects. That allows me to spot risks and defensiveness."

Innovation need not take the form of developing new products. Companies can also benefit by **redesigning their processes or their business model**. The best recent example of this is Dell, the start-up that became the world's biggest computer maker thanks to an extremely lean business that allowed it to deal direct with customers and reduced the need to hold inventory.

The CBI believes British companies invest heavily in this kind of innovation — a form that is not captured by the DTI's R&D statistics. According to a CBI / QinetiQ report published today*, companies typically spend 12% of their turnover on innovation activity. This is far in excess of the 2% of sales that is spent on R&D — a constant source of concern for the DTI. The CBI fears that "government policy is failing to support large swathes of innovation activity because it is focusing its attention almost exclusively on R&D and supporting science and technology research at the expense of other areas of business innovation". * http://www.cbi.org.uk/pdf/innovationbrief1006.pdf

Garnier is also concerned that the government is not doing enough to create an innovation economy. He is troubled by the shortage of students studying for science and engineering degrees. The biggest problem is the loss of the best students to the City and the legal profession, seduced by big salaries and even bigger bonuses.

"We have to advertise the fact that those in investment banking and the legal profession are never going to make the kind of money that (their predecessors) made in the bubble," said Garnier. "If you have qualified with a bio-medical degree, the world is your oyster — you can start a company with your training. If you're a banker, you can't start a company. You're just going to shuffle papers. We need entrepreneurs; we need people who create things."

Another fear is that innovation is being stifled by bureaucracy. Garnier said the government needed to do more to turn the war on **red tape** into action. "Their message is right on," said Garnier. "That's what Gordon Brown says, that's what Tony Blair says. On their own admission, (their ministers) are not listening enough. They're passing a lot of legislation that is not productive. "We have to reduce the amount of unnecessary bureaucracy that comes from all branches of government. We can do better."

Glaxo already spends about 16% of its pharmaceuticals turnover on R&D, but Garnier wants to lift this much higher — provided the new generation of products coming through deliver the profits to justify this to his shareholders.

"I would not mind going to 25%, which would put us way ahead of anybody else," said Garnier. "I would like to do it in the next three to five years."

It sounds as if Glaxo will be maintaining its top spot on the DTI's R&D scoreboard for years to come http://www.timesonline.co.uk/newspaper/0,,176-1892327,00.html

The Sunday Times American Account November 27, 2005

Destruction that is creating a better America IRWIN STELZER

GENERAL MOTORS, which like Ford lost $1.3 billion (£755m) in the third quarter, will lay off 30,000 workers and close or downsize 12 plants in a desperate effort to avoid bankruptcy. Kodak is frantically trying to build its digital business as the use of film declines. Knight Ridder shops for a buyer as the collapse of its local newspaper monopolies destroys its viability.

Several airlines have declared bankruptcy as their uneconomic cost structures cripple their ability to compete. Telecoms companies watch the value of their wires drop as mobile phones, voice-over-internet and cable companies poach their customers. Blockbuster flirts with bankruptcy as new, more convenient ways of delivering films to the screens of couch potatoes make a trip to the rental shop unnecessary.

That destruction of the value of existing assets and businesses is, fortunately, only half the story. The other half was long ago pointed out by Joseph Schumpeter. Schumpeter is said to have remarked: “Early in life I had three ambitions. I wanted to be the greatest economist in the world, the greatest horseman in Austria, and the best lover in Vienna. Well, I never became the greatest horseman in Austria.”

Not having access to the historical records in Vienna, I have no way of knowing if Schumpeter achieved the last of his three goals. But he has a valid claim to having achieved the first, or at least to ranking right behind Adam Smith.

Over 60 years ago, when the American economy was still in the early phase of a war-induced recovery from a decade of depression, and the future of capitalism was in doubt, Schumpeter wrote: “Capitalism ... is by nature a form or method of economic change and not only never is, but never can be, stationary. The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumer goods, the new methods of production or transportation, the new markets, the new forms of industrial organisation that capitalist enterprise creates.”

This process “incessantly” destroys the old economic structure, and creates a new one. “This process of creative destruction is the essential fact about capitalism. Every piece of business strategy acquires its true significance only against the background of that ... perennial gale of creative destruction,” Schumpeter concluded.

This is the process that is now accelerating in the American economy. The future of newspapers is threatened by new technologies that multiply the methods of delivering news and advertising to consumers. Hardest hit are those, like Knight Ridder, that relied for their profits on monopolies of local advertising. If Google, its share price soaring as media companies’ shares languish, succeeds in creating a jobs market that replaces classified advertising, the old method of spreading ink on dead trees will face an even greater threat.

Kodak is suffering because the new digital technology is destroying its film business. The company, which lost more than $1 billion in the third quarter, is trying to adapt to the destructive effect of the new technology. But rising digital revenues are insufficient to offset shrinkage in its traditional business, at least so far.

Traditional telecoms companies are watching the number of residential lines decline steadily. Young people prefer the mobility of cell phones; businesses are experimenting with using the internet; some consumers are finding the offerings of cable companies more attractive than those of traditional telecom providers. SBC Communications, which last week changed its name to AT&T after acquiring the long-distance business of the once-mighty monopoly, is planning to adapt to the destruction of its residential landline business by creating a single network to deliver video, data, wireless calls and phone traffic and, according to The Wall Street Journal, making 1,000 television channels available to consumers.

As for airlines, deregulation freed innovators to negotiate more reasonable contracts with employees, develop point-to-point service as an alternative to the hub-and-spoke business model of the traditional carriers, and offer low, load- increasing fares. Whether the old-line carriers — several in bankruptcy and others emrging from it — can adapt is uncertain, although United says there is black ink in its future. What is certain is that creative and profitable newcomers Southwest and Ryanair know something that busted Delta, US Air and others have to learn if they are not to join Pan Am, Eastern and other once-mighty carriers in the dustbin of history.

And why traipse to a Blockbuster store to rent a video when hundreds of movies are available from multichannel television providers, and on DVDs mailed to your home by companies such as Netflix? Result: Netflix recorded 3.6m subscribers, up 61% year-on-year, and third-quarter revenue of $174.3m, up 23%, while much larger Blockbuster saw third-quarter revenues drop 1.7% to $1.39 billion and gross profit fall 8.3% to $790.5m, forcing a financial restructuring.

This brings us to General Motors, which is in the process of being destroyed by a combination of what Schumpeter called “new consumer goods” (higher-quality and more attractive imports), “new methods of production” (lower-cost plants of Toyota and others), and “new type(s) of organisation” (shorter drawingboard-to-production-line times), not to mention inept management and the cost of benefits lavished on workers. Investors responded to the company’s survival plan by selling off its shares, already down 42% in the past year.

Competition of this sort, wrote the man who never succeeded in becoming Austria’s greatest horseman, “strikes not at the margins of the profits ... of the existing firms but at their foundations and very lives”. Good news for creative destroyers and consumers, bad news for hidebound managers and their shareholders.

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