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The Corporate Entrepreneur

**CEO Publication
G 80-6 (6)**

Edward E. Lawler III
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John A. Drexler, Jr.
University of Washington

May 1994

Parts of this research were done through the Battelle Institute,
Human Affairs Research Centers

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ABSTRACT

Identifies the conditions in corporations which lead to entrepreneur behavior. Stresses that with the proper organizational practices a climate of risk taking and entrepreneurship can be created in even a large corporation.

THE CORPORATE ENTREPRENEUR

Large corporations can offer managers a fertile ground for innovation, creativity, and entrepreneurial behavior. They have large concentrations of human, financial, and technical resources available for creating major innovations and breakthroughs in products, services, and management practices. Yet there is often a perceived gap between a large organization's potential for creativity and the reality of their managers' conservative low-risk behavior. The gap has led some executives to ask how they can create a climate supportive of entrepreneurship and such researchers as Mintzberg (1975) to identify it as an important managerial role. It led us to do the research on the causes of entrepreneurial behaviors which is the focus of this paper.

The concept of entrepreneurship is often thought to be antithetical to the very nature of large corporations. However, W. F. Kieschnick of Atlantic Richfield Company believes that combining the characteristics of the entrepreneur with traditional management behavior is not only possible, but it represents the ideal business executive. We adopted his notion of the corporate entrepreneur for purposes of our research:

First, a tough-minded realism that enables the manager to keep fundamental and necessary goals uppermost in the mind and to honestly face error or the need for change; and second, an innovative spirit that is always open to the proposition that there just may be a better way of doing the job, or for that matter, a better job to be done.

RESEARCH APPROACH

Although behavior is jointly determined by the nature of people and by characteristics of the environment, our research emphasized the environmental or organizational conditions that encourage or discourage corporate entrepreneurship. We made this choice for two reasons. First,

while it is tempting to assume that large corporations don't have corporate entrepreneurs solely because they don't have the right kind of people, we believe that there is a mix of people in large corporations, some of whom have the potential for entrepreneurship and some of whom do not. Second, we focused on the environment because organizations can control it much more so than they can control the nature of the individual managers or executives who populate them. Thus, our major research question was, "What can be done to encourage and stimulate corporate entrepreneurs?"

We conducted studies in large, multi-national, multi-business corporations to identify those conditions that enhance innovation, creativity, and entrepreneurial behaviors in corporations. The major data collection approaches were interviews and questionnaires. In each corporation 15 to 30 people were interviewed, and then questionnaires were developed to test some initial beliefs about roadblocks to corporate entrepreneurship. Eventually, data were collected from people at many levels of six organizations. Although slightly different questionnaires were used in each of the organizations studied, a total of over 900 responses were obtained to most of the questionnaire items. Finally, lengthy feedback meetings were held with groups of respondents. The meetings were designed to clarify and expand upon the information that resulted from our analyses and to develop action plans for dealing with the issues.

ROADBLOCKS TO CORPORATE ENTREPRENEURS

The data that were collected identified five major roadblocks to corporate entrepreneurship in large companies: staff organizations, lack of turf, reward systems, budgeting, and control systems.

Role of Staff Organizations

Many respondents identified the increasing control exerted by staff groups as a major roadblock to innovative behavior. Regulation, competition, and social pressure were believed to increasingly constrain organizations with a resulting increase in staff control. Legal, personnel, and financial staffs were identified as the staff groups that most commonly inhibit innovation through the hurdles that they create. For example, in one research site, only five percent of the managers reported that they would expect to encounter resistance to their new ideas from their bosses. However, thirty-seven percent of the same managers expected to encounter resistance to their ideas from financial, planning, legal, or other specialists. In another organization, line managers felt that staff groups veto ideas rather than provide the expert advice on which line managers could base decisions. Line managers were often jealous of staff people because of the information they held or withheld and its resultant power.

This is not to say that line managers reject the roles of staff managers. Rather, staff people were often seen as stifling ideas rather than working with innovators to develop ideas that would meet externally imposed regulatory rests. As a result, a "we" versus "they" relationship developed in many situations, and staff persons were seen as erecting barriers to the development of new ideas. Many line managers felt that

they exerted more energy maneuvering around their own staff than they spent dealing with the challenges they faced from their competition.

This situation was particularly troublesome for organizations that had staff groups at the divisional, company, and corporate levels. Here ideas required multiple layers of staff approval with each layer justifying its existence by finding something wrong with the idea and trying to do better than the previous staff group. Further, when any one staff group reacted negatively to the idea, it was killed. Some ideas were approved after long delays, but in a form unrecognizable to the idea's initiator.

At times it seemed as if staff and line roles had reversed themselves. Staff had become decision makers and line had become advisors and idea persons. Staff persons justified this role reversal because of the large costs associated with a mistake. Overall, a picture somewhat reminiscent of organizational complaints about government regulatory agencies developed: excessive levels of approval, difficulty in getting answers to proposals, long delays, no one willing to make a decision, and, finally, an endless array of forms to be filled out.

Turf

Many managers reported that they lack a real area of responsibility that they can call their own. Because of this, they feel that there is no entrepreneurial arena in which they can operate. Apparently, because of the way many organizations are structured, responsibility is diffused and so is the manager's ability to change anything in an innovative way. Managers reported being uncertain about who is responsible for implementing policies and being unclear about who has authority to approve many

kinds of innovative changes. As a result, changes don't get tried and, in many cases, individuals simply give up on their ideas. This seemed to be particularly true when an innovation looked like it would affect a fairly wide area of the business or a large number of people. In these cases, it was not clear who could really sponsor a change or even who could approve it, and as a result, managers reported that ideas were often dropped.

Rewards and Sanctions

The data collected on reward systems indicate that rewards can strongly influence the amount of corporate entrepreneurship present in organizations. In all cases, the administration of rewards and punishments was reported to be problematic both with respect to encouraging normal management performance and to encouraging risk-taking behavior. In one organization, only thirty percent of the managers said that larger than normal financial rewards result from especially good performance, whereas seventy-two percent saw smaller than normal rewards resulting from poor performance. Similarly, thirty-seven percent believe that promotions, when openings are available, will result from especially good performance whereas seventy-nine percent believed that poor performance will stop their advancement opportunities. In yet another organization, sixty percent of the managers agreed that the company encouraged them to take reasonable business risks, but only forty percent agreed that they would be rewarded for taking a successful risk and thirty-seven percent agreed that a risk that fails will result in punishment even when the failure was beyond the manager's control. Many went on to add that even if a risk succeeded handsomely, the rewards to the individual would not reflect this. A number of corporate compensation policies (e.g., a lack

of bonus plans, no chance for equity participation) were cited as standing in the way of an individual ever receiving a truly significant reward.

In one organization, upper level managers were reported as sharing in the benefits resulting from their subordinates' risks that succeeded but attributing the blame to subordinates when risk taking failed. There was a consensus in this organization that managers were afraid to fail and to report failure to their own boss.

Finally, in those situations where innovation was encouraged, the encouragement seemed narrowly focused on cost-cutting improvements. In one site, for example, questionnaire respondents reported strong encouragement in cost-cutting innovations but little to no encouragement for innovation in such diverse areas as people management techniques, operational procedures, technological improvements, administrative practices, policies and procedures, and for capital investment or unconventional business ideas.

Overall, our data suggest that, to the limited extent that they impact on behavior, most reward systems encourage behavior that is safe and conservative. Many managers reported making decisions that would maintain the status quo rather than test out possibly more effective or efficient ways of doing things simply because it was in their best interest to do so from a risk-benefit perspective.

Budgeting

A particularly nettlesome issue for most managers was the issue of spending authority for both small and large ventures. They reported that there were simply too many approvals required for even the most trivial expenditures. One vice-president described the time required and

difficulty encountered in obtaining authorization for a twenty dollar reception-area magazine subscription. Because of this need to justify and overjustify expenses, many managers complained that opportunities were often missed. In addition, in the eyes of many managers, getting financial approval for innovation was simply too cumbersome and too difficult, and as a result, innovation was discouraged.

Interestingly, managers stated that getting resources was problematic both for developing new ideas and for fully implementing major changes. Thus, the difficulty was not limited simply to new product development, but covered other areas such as internal management practices, new policies, and new procedures that affect production and service operations. Difficulty was experienced even when the ideas involved cost cutting. One manager, facing a short-term reduced production schedule, had the opportunity not to replace several persons who had recently accepted other positions. This manager decided, however, to replace these persons immediately because of expected problems that would be encountered in getting the authority to open new positions once the production schedule increased.

Information and Control Systems

The managers in our studies also identified information and control systems as an additional barrier that stymies corporate entrepreneurship. First, these systems often fail to adequately measure the impact of entrepreneurial efforts and thus don't create a situation where an individual is likely to be recognized and rewarded for his or her entrepreneurial venture. For example, in organizations that lack appropriate cost center data, the results of a manager's efforts may be

lumped with those of other managers, and as a result may not be visible. Secondly, the systems are often keyed into the already existing businesses and operations and, as a result, present one more thing that needs change if an entrepreneurial venture is to be launched. This is a particularly severe problem in cases where the idea involves a new business or field where different measures are needed and different levels of return are common. Thus, ideas are often abandoned because they have measurement needs that do not fit neatly into the existing management information system structure. Third, to the extent that information systems accurately capture what is going on in the organization, they can prevent an aspiring entrepreneur from working on his or her idea in a low profile manner. In short, they are likely to uncover a new idea before it has a chance to be fully developed and presented.

WHAT CAN BE DONE

There are no easy ways to change organizations so they will create a climate conducive to corporate entrepreneurship. In fact, trying to do so might in itself be considered an entrepreneurial venture. Our data, however, do suggest some things that can be done.

Role of Staff

Several things can be done to make the staff role one that supports a climate for entrepreneurship. First, the staff role itself needs to be clarified. Is it an advisory role or a decision-making one? We found that when staff people were identified as advisers to the line, that innovation was encouraged. It helped create a climate in which staff groups were seen as facilitating idea development rather than as setting roadblocks to innovation. It also seemed to be important to involve staff

groups early in the innovation process. This encouraged contributions to the idea's development rather than criticism of the idea, and it made the line managers less defensive.

Finally, the need for multiple layers of staff approval needs to be reassessed. One alternative is to review only major proposals at the corporate level and to allow lower level staff groups to make the decisions on most proposals. This takes the corporate staff groups out of much decision making. Another alternative is simply to concentrate everything at the corporate level, and to eliminate other staff groups (one computer company recently did just this). Our data suggest that the best approach usually is to let the local staff groups handle most issues since this will enhance the chances of line and staff working together in a problem-solving mode.

Although our discussion has focused on creating a climate for entrepreneurship among line managers, there is also a need for creating such a climate among staff groups. During several of the feedback sessions, lower level staff persons expressed some of the same concerns about dealing with higher level staff groups as did the line managers. It is unrealistic to expect them to support entrepreneurial behavior on the part of the line when they are controlled in a way that prevents them from demonstrating it. Thus, any effort to improve the support for entrepreneurial behavior should include freeing up the staff group to be innovative and rewarding them for innovation.

Creating Turf

The problem of managers not having their own turf can be dealt with through structural changes. Organizations are gradually realizing that if they want to increase entrepreneurship and motivation they need to create mini-enterprises within larger corporations. This means decentralizing by moving more and more information, decision-making responsibility, accountability, and authority to lower levels. It is critical, however, that these mini-enterprises be organized around meaningful business units so that they can be measured in terms of their profit and loss and so that people can truly be held accountable for the results in their business. In some ways this kind of organization yields the best of both worlds: it has the identification with the venture that is typical of small organizations and the resources and capital that is typical of larger organizations.

One publishing company, for example, has even gone so far as to create separate companies in which the parent company holds stock. These companies, once they become established, are at times set in competition with each other. This creates a truly significant reward situation for the individual since he or she has the chance to accumulate capital, and it creates an enterprise that the individual strongly identifies with. It also helps the corporation in that the individuals who otherwise would have gone off to become an independent entrepreneur stay with the corporation. Other organizations (e.g., DANA and TRW) have done the same thing with their plant managers. They have given them the freedom to run their own business in most matters which affect costs. They can, for example, make purchasing decisions, set wages, and launch productivity improvement projects.

Tolerance for Good Failures

If organizations are going to have entrepreneurial behavior, they need to develop a tolerance for "good failures." This means that they must be willing to accept the fact that some ventures will fail and not punish the individuals who sponsor these ventures. In short, it has to be okay to fail in the organization. In the face of sure punishment for even good failures, very few individuals are going to take significant risks. Some large organizations have this tolerance but many do not. It is not hard to understand why it's difficult to develop this climate. Failure is always difficult to deal with and one face-saving approach is to punish the person most responsible for it. But punishment of that person is destructive to the organization's long-term innovative spirit.

Rewarding Success

Because there are risks involved in entrepreneurial ventures, it's critical that organizations have the capacity and willingness to reward people in proportion to the success of their ventures. A reward system that simply offers small salary increases based on performance cannot do this. Bonus systems that pay large annual bonuses (e.g., 40% plus) to people based on their performance, and spot bonus programs that award one-time bonus payments in return for significant entrepreneurial ventures can be effective. Which of these is appropriate, of course, depends upon the kind of business that the organization is in, and the kind of innovations that are likely to occur.

Perhaps less generally applicable than bonus systems, but quite appropriate in certain situations, is the idea of giving executives an equity position in a new venture. Exxon has done this with some of its new

ventures (e.g., Zilog). It has the obvious advantages of offering individuals the possibility of large capital gains and of assuring that their interests and those of the new venture will be closely aligned.

Spending Authority

The lack of readily available funds for entrepreneurial ventures can be solved by creating pots of money throughout the organization that can be quickly and easily expended for innovative ventures. The key to making these programs work is having relatively few levels of approval necessary for the expenditure of these funds and for the organization to use the funds for truly new and innovative approaches. Some organizations have created these at very low levels, and then required only one level of approval for the funds to be expended. Thus, proposals for innovation are initiated and approved at relatively low levels. Texas Instruments has done this, for example, by creating a special group of listeners to assess new ideas. They can approve substantial startup funds for product experimentation. IBM's Fellows Program does the same thing by giving certain individuals the authority to pursue their own ideas. These approaches help overcome the problem of control systems directing and detecting innovative efforts prematurely. In essence, they legitimize entrepreneurial efforts at lower levels in organizations even before they're really justifiable in terms of a thorough staff review.

SUMMARY AND CONCLUSIONS

Overall, there seems to be a considerable amount that organizations can do to encourage entrepreneurial behavior. Indeed, it seems that any executive who feels there is a lack of entrepreneurial behavior in his or her organization may find the reason for this in policies and practices of

the organization. Certainly in some instances the lack may be due to poor staffing and lack of entrepreneurial talent. But our research suggests that in many instances at least part of the problems rests with the way organizations are designed and controlled. Thus, a strong recommendation evolves: any organization that wants more entrepreneurial behavior should start by checking such things as the reward system, the levels of staff approval, and the information and control systems to see if these are acting as roadblocks to entrepreneurial behavior. If they are, and our research suggests that many problems likely will be found here, then a review needs to be made of the ways in which they can be changed. An important part of this review should be consideration of both the gains and losses which may occur. In our experience, not all organizations can tolerate the new problems that may result from the changes that are put into place in order to create more entrepreneurial behavior.

In our work with organizations we have found that the following questions are the type that needed to be asked: Will reducing the role of staff groups make the corporation more vulnerable to such outside forces as regulatory bodies? Will differentially rewarding risk takers reduce the pool of resources for rewarding other good performing managers? Will tolerating certain kinds of failures reduce the overall performance standards held by managers? Can the organization afford the venture capital needed to fund innovative ventures? Is the organization operating in a business in which innovation is rewarded? If, after considering the pluses and minuses, an organization decides it wants to stimulate more innovation, then our research has a positive message: it can be done through policy changes that encourage corporate entrepreneurial behavior, major staffing changes probably are not necessary.

REFERENCES

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