1 Introduction

The age of entrepreneurship

After years of downsizing and restructuring, top managers are once again thinking about growth. But growth does not come as naturally or as automatically as it once did. Revitalization of industry and the creation of new jobs must increasingly depend on the development of new products and new markets to satisfy unrecognized and unmet public and personal needs. Such creation of economic value by perceiving and pursuing new business opportunities is what practitioners and scholars have in mind when they speak about the need for entrepreneurship.[1]

Much has been written about independent entrepreneurship, which refers to an individual or a group of individuals striking out on their own to start a new business. Stories of entrepreneurs who have created new industries and new wealth, such as Steve Jobs at Apple Computer and Bill Gates at Microsoft, as well as pioneers of the new economy such as Jeff Bezos of Amazon.com and Meg Whitman of eBay, are now part of the American folklore. The academic community has made great strides in both teaching and writing about this subject.[2] Independent entrepreneurship has created substantial job growth in the United States, and is the envy of other nations trying to emulate it. It is also evident that independent entrepreneurship is not well suited to the pursuit of opportunities requiring large capital investments and long time horizons because venture capitalists are typically impatient and prefer small bets.[3]

Corporate entrepreneurship, which refers to the efforts of corporations to generate new business, has, until recently, received far less attention.[4] Indeed, to those who view large firms as bureaucratic and inhospitable to creativity and innovation, the term "corporate entrepreneurship" is an oxymoron.[5] The 1950s and 1960s image of the corporate executive in the conservative gray flannel suit was replaced in the 1980s and 1990s by their caricature as overly compensated short-term thinkers who are unwilling to innovate and take risks. And in the post-Enron era, the word "corporate" followed by the word "entrepreneurship" conjures up dark images of greedy corporate executives who find creative and innovative ways, whether legal or not, to line their pockets with millions of dollars at the expense of shareholders, employees, and the public at large.

There is enough evidence to justify these stereotypes. Corporate greed and fraud made possible by flawed incentive systems, lax auditing, and failure of corporate governance will have to be set right before the word "corporate" regains much respect.[6] But scholars are in agreement with practitioners that large firms can be entrepreneurial in the positive sense of creating real economic value for everyone's benefit through the development of new products and new markets. And there is also agreement that corporations will need to become more entrepreneurial in the face of intensifying global competition and accelerating technological change.[7]

Corporate entrepreneurship is in the national interest not only because large firms account for much of the nation's economic output and jobs, but also because corporate and independent entrepreneurship complement and compete with one another. Having both enhances a nation's competitiveness. A case in point is the competition between bricks-and-mortar retailers such as Barnes & Noble and Internet pioneers such as Amazon.com. At first, the bricks-and-mortar players were written off as dead; now it looks as though the web ventures they have launched will give the upstarts a run for their money.[8] The point is that corporate entrepreneurship by bricks-and-mortar players and independent entrepreneurship by Internet pioneers are competing head-to-head, as well as collaborating with each other in the form of strategic alliances and joint ventures. Consumers and the economy are the beneficiaries.

Strategy and entrepreneurship[9]

Strategy provides a good starting point for the examination of corporate entrepreneurship. With a clear strategic intent, the core competence of the corporation can be effectively leveraged to create new businesses.[10] Well-known examples are Honda's forays into a range of new businesses based on its competence in high-performance engines, and Sharp's entry into a slew of new markets with products such as flat screens for televisions and computer monitors, personal digital assistants, and other viewing applications utilizing its core competence in liquid crystal displays. As these examples indicate, strategy drives entrepreneurship.

The story of Honda's entry into the US motorcycle market is a classic illustration of how entrepreneurship can also drive strategy. Faced with limited financing, major quality problems, weak dealer relationships, and negligible consumer brand awareness, it was the entrepreneurship displayed by Honda's US management team that led the company to a new strategy for success in the US market.[11]

Unfortunately, these insights about strategy and entrepreneurship do not automatically lead to successful new business creation. This is because the proper organizational context must be created[12] and the right process installed, monitored, and *influenced* appropriately for new business creation to flourish.[13] The work is the responsibility of top management, and is sometimes flawed in its basic conception or botched in execution. This book shows how and why this occurs and how top managers can do better.

Purpose of the book

Top managers of large firms are unable to promote successful entrepreneurship because the task is innately difficult.[14] Consider the findings of this study on what happened at Xerox. Corporate executives took a number of actions that seemed sensible enough. They appointed a proven entrepreneur, Greg Gibbons,[15] as division general manager (DGM) to spearhead the company's bold moves into the emerging office automation market. Recognizing that the corporate bureaucracy might stifle the entrepreneurial spirit, they gave Gibbons plenty of resources and a free hand to run the strategically vital Office Products Division (OPD) as he saw fit, with little or no corporate interference. And they granted Gibbons and his top management team big financial incentives, similar to those given to independent "Silicon Valley" entrepreneurs, to encourage the necessary risk-taking.

Gibbons, for his part, provided charismatic leadership that seemed appropriate too. He hand-picked his top management team, rallied the troops with a compelling vision of creating and dominating the Office of the Future, developed an innovative strategy for the "war" with IBM, and launched several exciting new products that could be interconnected into an office automation system targeted at Fortune 500 accounts with a new marketing and sales approach. After an encouraging start during Gibbons' first eighteen months, the division came in $100 million below the profit plan for Gibbons' second full year as DGM, and $150 million below plan for his third year – Gibbons left Xerox in the third quarter, with losses piling up.

What went wrong? First, the corporate executives, the DGM and his top management team took actions that seemed sensible but did not work – and in some cases actually backfired. Second, actions that needed to be taken were overlooked or under-emphasized. The underlying reason for both these errors, of commission and omission, is *not* that these were bad top managers; their critics might have suffered the same fate or worse.

Top managers fail in new business creation because it requires a *different* set of philosophies, attitudes, methods, and skills than those learned in

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running an existing business. And it does not help that top managers, as well as MBAs and executive students for that matter, are inadequately educated and trained for this important task. This book offers both a theory of corporate entrepreneurship based on the real-world experience of top managers and practical advice on how to manage it better.

The major lessons

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. There are six major lessons to be learned from their experience; these themes are developed more fully throughout the book.

First, corporate entrepreneurship is inherently unpredictable and risky and traditional controls are ineffective for managing the technical, product, and market uncertainties of new business. In fact, such controls can be worse than ineffective because they can bring new business creation to a screeching halt. This is why some top managers view control as the enemy of corporate entrepreneurship. They are wrong. When it is conceived properly and used skillfully, control is an essential companion of entrepreneurship. The successful players expect high failure rates and volatile results with new business, and they make allowance for this in how they control it.

Second, corporate entrepreneurship has some similarities to independent entrepreneurship, but there are fundamental differences as well. For example, except under a very restrictive set of conditions to be described later, successful managers do *not* use the "Silicon Valley" model of independent entrepreneurship that offers big financial rewards for success, because of its toxic side-effects. They use alternative approaches for motivating entrepreneurial behavior that work much better within the corporate context.

Third, it is inherently difficult for top managers to successfully create new business because they are also responsible for the health and growth of existing business.[16] In independent entrepreneurship, by contrast, new business creation gets the founder's undivided attention. Corporate attempts to overcome this challenge by separating existing and new business create other problems. Such dilemmas must be properly managed.

Fourth, successful top managers promote new business creation with the "small-is-beautiful" corporate philosophy, which is focused on many small opportunities. Those who pursue the "bigger-is-better" philosophy, focused on a few large opportunities, tend to stifle new business creation in the division. It is difficult to successfully pursue both corporate philosophies *simultaneously*, but, with appropriate skill and discipline, it can be done.

Fifth, successful top managers know that new business creation must be pursued *consistently*, because it takes a long time to achieve results. Consistency also affords the opportunity to learn from failure and develop new organizational competencies that open new vistas of opportunity and improve the performance of the *existing* business!

Finally, new business creation must be seen as a *process* that needs to be managed.[17] For some people, the word 'process' conjures up images of bureaucracy – checklists, procedures, and signoffs that slow things down and hamper creativity, flexibility, and innovation. As the quality revolution made clear, the management process to improve quality can degenerate into a bureaucratic exercise. But when thoughtfully applied as a management discipline, such a process can also lead to substantial improvements in cost and quality. A disciplined approach for new business creation makes it more fruitful, more predictable, and less risky.

Viewed constructively, the new business creation process consists of a number of stages: idea generation, concept development, market feasibility testing, business development, production scale-up, product standardization, and business termination.[18] The actual number of stages and their focus will differ by company and industry, but three overarching entrepreneurial tasks must be properly managed if new business creation is to be successful: (1) the perception and definition of new business opportunities; (2) the motivation and commitment of people, and the availability of sufficient resources, to pursue these opportunities; and (3) the control of new business initiatives and the learning of the new capabilities required to exploit these opportunities successfully.[19]

Definition of new business

Referring to Figure 1.1, everyone would agree that an entirely new product for an entirely new market constitutes new business. Honda's entry into the automobile market from its base of business in motorcycles is a case in point.[20]

Most managers would also view *either* entry into an entirely new market *or* the introduction of an entirely new product as new business.[21] Well-known examples are the recent entry of Western companies into the new China and India markets with existing products or product extensions, and 3M's innovation of Post-it notes for its existing consumer franchise in adhesive tape. The logic for calling such business *new* is that entry into entirely new markets requires much new learning about logistics,

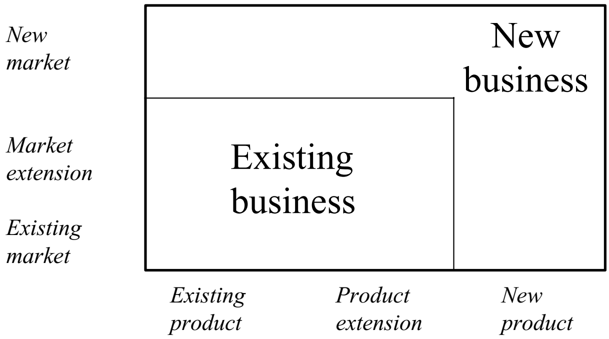

Figure 1.1. What is new business?

distribution channels, advertising, and so on; and the development of an entirely new product requires similar new learning about design, development, and manufacturing.[22]

Three distinctions are worth noting. First, a new business might be entirely consistent with the current strategy, or it might result from autonomous strategic behavior that falls outside the current concept of strategy.[23] An example of the latter is Intel's move into microprocessors from its base of business in memories.[24] Second, a new business might be new to the world, as in the case of the Newton, a hand-held PDA (personal digital assistant) introduced by Apple Computer, or new to the company only, as in the case of PDAs introduced subsequently by Motorola and Sharp.[25] Third, a new business might (or might not) cannibalize existing business. For instance, Sharp's Zaurus, a new product born of the marriage of the electronic organizer and the PDA, cannibalized Sharp's sales of electronic organizers, whereas Sharp's entry into notebook computers did not eat into its existing business. In this book, business created by a new product and/or a new market is defined as new business whether or not it falls within the current concept of strategy, whether or not it cannibalizes existing sales,[26] and even if it is only new to the company, not new to the world, because all these cases require significant new learning for the company.[27]

Definition of top managers

A large diversified company has managers at the corporate headquarters and in the divisions. The top managers are the corporate executives, the division general manager, and other members of the division's top management team (Figure 1.2).

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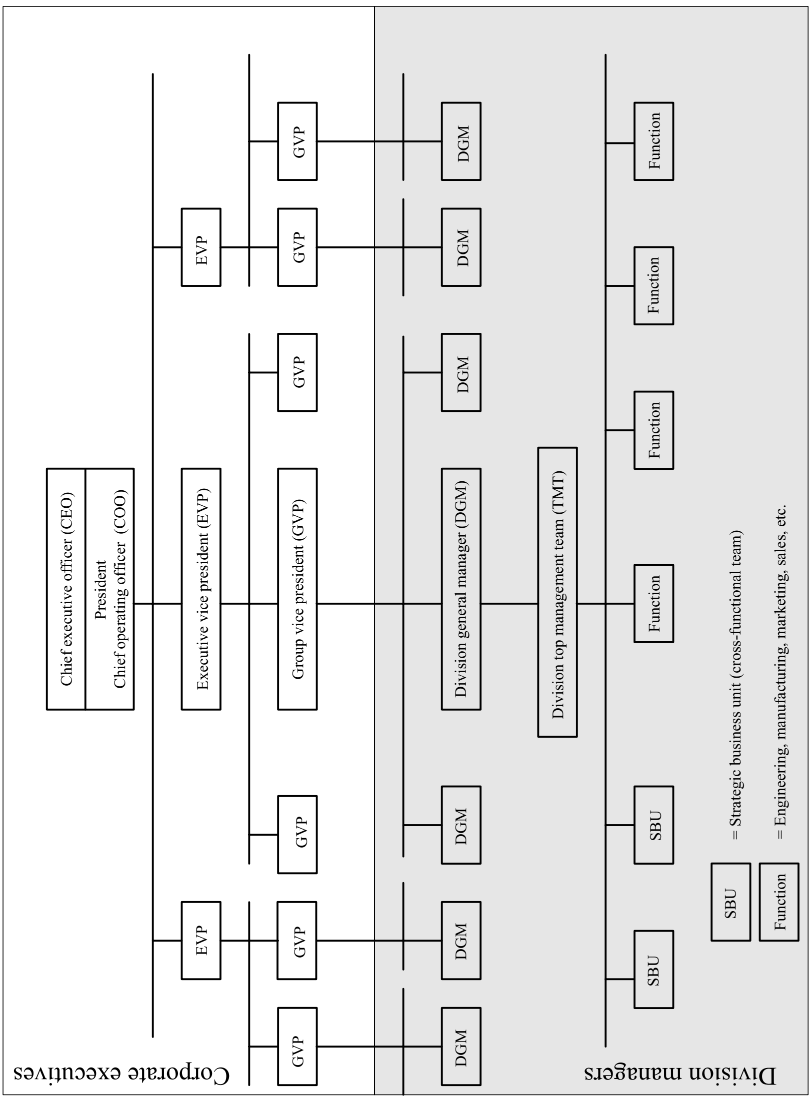

Figure 1.2. Top managers in a large diversified company.

The corporate executives are the chief executive officer (CEO), the president and/or chief operating officer (COO), the executive vice presidents (EVPs) responsible for major business sectors, and the group vice presidents (GVPs) responsible for a group of business divisions within a business sector.

The division general manager (DGM) is the leader of a business division and reports to a corporate executive, typically to a GVP or sometimes directly to an EVP. The DGM might have the title of Corporate Vice President or Division President.

Led by the DGM, the division's top management team (TMT) consists of heads of business units, functions, or both in the case of a matrix organization. TMT members might be called division vice presidents. The business units, commonly called strategic business units (SBUs), have profit and loss responsibility for product-market segments of the business. The functions, such as engineering, manufacturing, marketing, and sales, are typically either revenue centers or cost centers.

Scope of the book

There are two broad and relatively distinct arenas for corporate entrepreneurship. One is the spectrum of entrepreneurial activity carried out at corporate headquarters, including corporate mergers and acquisitions;[28] major strategic alliances,[29] corporate joint ventures,[30] and licensing agreements; utilization of corporate venture capital;[31] corporate research and development; new venture development;[32] and corporate spin-ins, spin-outs, and divestitures.[33] All these represent new business (or the disposal of existing business) for the corporation. They are typically driven by the CEO and other corporate executives, with the involvement of division managers as appropriate. These entrepreneurial activities are beyond the scope of this book.[34]

We will examine the other major arena for corporate entrepreneurship – the existing and emerging business divisions, which are the bread and butter of the corporation.[35] In an emerging division, the bulk of business is new. Examples are IBM's PC division for the personal computer market in the 1980s, and Apple Computer's Personal Interactive Electronics division for the personal digital assistant market in the 1990s. In an existing business division, both reactive moves in response to competitive pressures and proactive moves stimulate new business creation.[36]

Focus of the book

New business creation in a division of the corporation is a process driven by many forces, including the business environment, the management culture, and the top managers responsible for the division. This book examines all these influences and their combined effect[37] in one major division of each of four large corporations: (1) Signal Communications Division of AMP (AMP Sigcom), (2) Micrographics Division of 3M (3M Micrographics), (3) Fabricated Products Division of Monsanto (Monsanto Fab Products), and (4) Office Products Division of Xerox (Xerox OPD).

The top managers – the corporate executives, the DGM, and the division TMT members – responsible for AMP Sigcom and 3M Micrographics were in general better at influencing new business creation than were their counterparts at Monsanto Fab Products and Xerox OPD. They encouraged their divisions to perceive and define more and better new business opportunities and they generated better motivation and commitment among their people to pursue these opportunities. They also controlled the initiatives better and promoted the learning necessary to exploit these opportunities successfully.

The corporate executives and division managers responsible for AMP Sigcom and 3M Micrographics were on the whole more effective because they had consistently emphasized new business creation over a long time. They did many things well but were by no means perfect; they made mistakes that they and others could learn from. And although their counterparts at Monsanto Fab Products and Xerox OPD had a less successful record of new business creation, they also did many things well that others could learn from. The book brings out this real world of top managers – complex, subtle, and fascinating.

The influence of top managers

The book presents a theory of how various factors drive corporate entrepreneurship and make it more successful or less successful. Specifically, the theory explains how top managers influence new business creation in a corporate division, for better or for worse. It is a "grounded theory" because it was derived from the ground up using systematic induction – by constantly comparing and contrasting the more and less successful cases of new business creation in this study.[38] The data for this analysis were obtained from documents, personal observations, and repeated and extended interviews with over one hundred top managers in the four companies studied over a three-year period. Additional details concerning the methodology are at the end of the appendix to this chapter.

Top managers *directly* influence new business creation in a corporate division by their actions and behavior. They also do so *indirectly* if they change the business environment by re-chartering the division to compete

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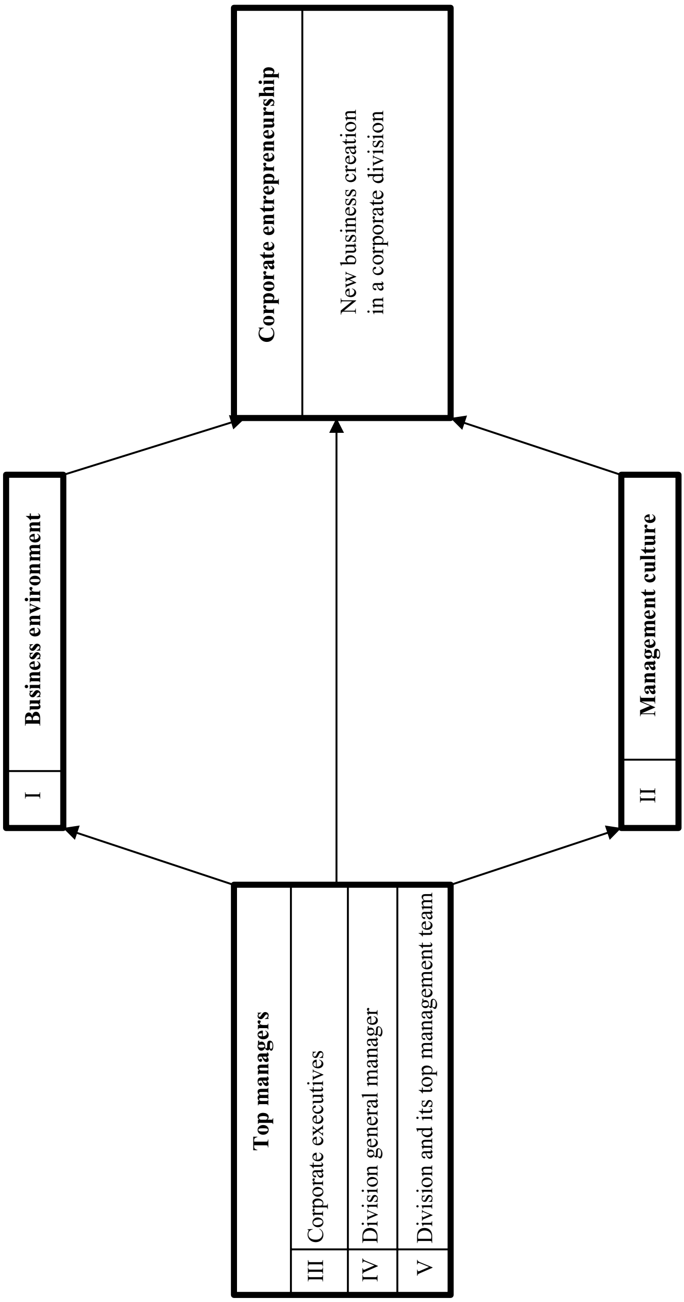

Figure 1.3. The direct and indirect influence of top managers.

