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Vijay Sathe

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Corporate Entrepreneurship

How do large corporations encourage their senior managers to become more entrepreneurial? This is a key question which is seldom addressed in mainstream entrepreneurship studies. Vijay Sathe has written a pioneering book based on hundreds of hours of interviews with senior managers to help understand why some organizations and some top managers are better than others in fostering entrepreneurship leading to successful new business growth. *Corporate Entrepreneurship* explores the real world of top managers in a systematic and comprehensive way, examining business realities, the management culture, the corporate philosophy, the organizational politics, the personalities and the personal priorities of the people at the top. The book offers both a theory of corporate entrepreneurship and practical advice on how to manage it better. An original and valuable contribution to the literature on strategic management, this is a book that will appeal to graduate students, researchers and reflective practitioners.

VIJAY SATHE is Professor of Management in the Peter F. Drucker Graduate School of Management at Claremont Graduate University, California. He is the author of *Controller Involvement in Management* (1982), *Culture and Related Corporate Realities* (1985) and co-author of *Organization* (1992).

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Foreword by Peter F. Drucker



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To over one hundred top managers – corporate executives, division general managers, and division top management team members – who gave so generously of their precious time for this project.

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Foreword

Everybody knows that large enterprises do not innovate and do not create new businesses. And everybody also knows that the overwhelming majority of new businesses created in those two highly entrepreneurial decades, the 1980s and the 1990s, were built by individual entrepreneurs, starting on their own. **AND EVERYBODY IS WRONG.**

The great majority of new businesses during the last decades of the twentieth century (but equally in the decades before them, that is since World War II) were created and built by existing enterprises, and in large part by big or at least fair-sized ones. And when it comes to successful new businesses, the proportion initiated and built by existing enterprises is even larger. The casualty rate is, of course, high for all new businesses. But it is vastly lower for those started, developed and nurtured by existing enterprises and, in fact, within an existing business.

However, new business creation within the existing business, commonly called corporate entrepreneurship, requires *leadership from the top*. The successful “intrapreneur” who creates a new business at the bottom – and without senior-management support, if not without its knowledge – is largely pure fiction. Successful corporate entrepreneurship requires strong, active, determined leadership on the part of the company’s CEO, on the part of its senior managers, on the part of the chief operating executives such as the division general manager in the large decentralized company. For successful new business creation faces very different challenges from those faced in running an established business with established products and established markets. It requires different policies, different measurements, different controls. Above all, it requires different human relationships within the senior-management group.

There is an abundance of books on that “folk hero,” the lone entrepreneur who starts out in a woodshed, on the back burner in the kitchen, in the garage. But Vijay Sathe’s book is, to the best of my knowledge, the first study of new business creation within the existing enterprise – that is on the American economy’s central entrepreneurial challenge and its central opportunity.

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New business creation must be considered the most important task of the senior executive in the existing enterprise, especially the larger one. Without it the enterprise is unlikely to survive, let alone do well, in a period of rapid transition such as the one we live in and are likely to live in for the foreseeable future. But it is also crucial for the economic and social stability of every developed country, and especially of the United States. Without it all developed countries face serious economic and social dislocation. Without it too, the existing leading economies are most likely to be overtaken by new competitors – the countries in which executives are not preoccupied with maintaining a glorious past and with defending yesterday. This book shows how to found tomorrow on today – above all, how to use the managerial knowledge and experience of the existing enterprise to invent and build the new businesses that will keep the enterprise young, growing, and successful.

Corporate Entrepreneurship is full of interesting people and interesting stories. But it is not a “popular” book of “miracle workers” and “originals.” It is a book of ordinary executives doing the right thing but also making plenty of mistakes, fighting over risky and difficult decisions – and, above all, working very, very hard. It is based on more than twenty years of in-depth research and on Vijay Sathe’s even longer career as a top-flight consultant to major businesses all over the world. The book shows what to do and what not to do; what the opportunities are and what the pitfalls are. It is a book both to enjoy and to study – but above all to apply its lessons to one’s own enterprise.

Claremont, California
May 2002

PETER F. DRUCKER

Preface

This book examines how top managers – corporate executives, division general managers and the division’s top management team members – influence new business creation in a corporate division. It is written for the aspiring manager, the practitioner, and the scholar.

The book takes the reader into the real world of top managers to explore a relatively uncharted territory in a systematic and comprehensive way. The business realities, the management culture, the corporate philosophy, the organizational politics, the personalities, and the personal priorities of the people at the top are vividly portrayed in these pages. It is not so much that the devil is in the details; it is that the details are the message, which is delivered herein by the top managers in their own unvarnished words.

To whet the reader’s appetite, consider two well-known companies in this study – 3M and Xerox. The former is commonly viewed as a paragon of entrepreneurial virtue; the latter as a bumbling icon that fumbled the future. However, as the detailed descriptions in this book reveal, both caricatures miss the mark by a mile and conceal what is really important to understand – the human dynamics and influences that led ordinary top managers to achieve extraordinary results at 3M, and sensible top people to produce less than satisfactory outcomes at Xerox. How and why this happened – and the lessons for top managers striving to promote new business creation – is the subject of the book.

Although the press has derided Xerox management for their failures, they did many things well that others could learn from. Specifically, they perceived the opportunities in the emerging office automation marketplace ahead of many others, and they developed remarkable technologies and products to pursue them, including Ethernet, the graphical user interface and the mouse, to name just three. These are industry standards today in the market for personal and office computing that they helped to create.

The top managers at 3M had a much better new business creation track record, but they made mistakes that they themselves and others

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could learn from. This book is not a good guy, bad guy story in which the top managers with the more successful new business creation track records did everything better than their less successful counterparts. The real world is far more complex and fascinating, and these pages try to bring this out.

To the best of my knowledge, this is the first systematic and comprehensive behavioral study of the influence of corporate top managers on new business creation. It began with my initial findings about the importance of management culture, which took me on a long intellectual journey. This journey included the development of a course and a book on corporate culture, which led to work on how to change culture in order to execute the desired strategy, and which in turn led to an interest in how strategy is conceived and developed. I now have come full circle with this book because new business creation is, of course, one of the pillars of strategy.

Some of the findings on the influence of management culture, covered in Part II, appear in my articles on corporate entrepreneurship included in the bibliography. All other material is presented for the first time.

Since the book is for scholars as well as for aspiring managers and practitioners, it is written in a straightforward manner in order to make it easily accessible to all these readers. A list of abbreviations is included. The endnotes are for scholars and others interested in the relevant literature.

I began this work while I was a faculty member at the Harvard Business School, where the Division of Research provided generous time and travel support for three years of intensive fieldwork. A number of faculty members and other colleagues offered comments and helpful criticism during the genesis of this project. I cannot possibly hope to acknowledge all of them individually, but I must mention the support and encouragement I received from Mike Beer, Jack Gabarro, John Kotter, Paul Lawrence, Jay Lorsch, Dick Rosenbloom, Howard Stevenson, Dick Vancil and Karl Vesper.

My colleagues within the Peter F. Drucker Graduate School of Management at Claremont Graduate University supported my intellectual pursuits – first into leadership for corporate transformation and then into business and corporate strategy. The University's sabbatical policy offered the opportunity to work on this book.

Two anonymous reviewers of an early draft provided thoughtful and constructive criticism that helped me to rethink, rework, and radically revise the book. Jill Nemiro read that draft and my interview notes and offered valuable input. Maria Savina transcribed about forty hours of tape recordings of the interviews and provided research assistance on the notes and the bibliography. Elizabeth Rowe transcribed the remaining

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twenty-five hours of recorded interviews. Jay Winderman provided excellent editorial assistance on the final draft. Deepak Shimkhada prepared many of the figures on PowerPoint and offered responsive administrative support.

Declan Quinn read the manuscript in detail and provided voluminous and valuable comments. Phil Barnett, Mike Csikszentmihalyi, Dick Ellsworth, Nigel Freedman, Bill Hicks, Pam Sveinson, Hatim Tyabji, and Klaus Volkholz also provided helpful feedback.

Chris Harrison, the book's commissioning editor at Cambridge University Press, provided thoughtful support throughout, and his encouragement helped me to reduce the book's length. Three anonymous readers commissioned by Cambridge provided excellent advice that I have tried to incorporate.

As the notes attest, this book is linked to the work of many others. Without repeating all the names here, I would like to thank them and acknowledge those whose contributions are cited most frequently in the notes: Zenas Block, Robert Burgelman, Clayton Christensen, Deborah Dougherty, Ian MacMillan, Scott Shane, James Utterback, Andrew Van de Ven, and S. Venkataraman. Their contributions, and those of the others cited in the notes, provide the intellectual foundation for the grounded theory of corporate entrepreneurship developed in this book.

Peter Drucker has been an inspiring and gracious colleague at Claremont. It is hard to find anyone in management who has not benefited from Peter's writings; those who are lucky enough to be around him are also the beneficiaries of his personal warmth and generosity. I am deeply grateful to him for his friendship and wisdom over the years, for providing comments on this book, and for contributing the Foreword.

My wife Shanu provided constant encouragement and buffered me from the many distractions that can derail such an undertaking. She read the manuscript at a critical juncture, and her insight did more for the book than she realizes. Our daughter, Sheila, and son, Jay, supported me with good humor and saved me from the deep end on many happy occasions! To all three of them I say, "Thanks for family time."

Over one hundred top managers – corporate executives, division general managers, and division top management team members – gave generously of their precious time for this project. I gratefully dedicate this book to them.

Claremont, California

October 2002

Abbreviations

AR	appropriations request (for capital expenditure)
BU	business unit
CAC	Corporate Advisory Council (the top twenty Monsanto executives)
CAD	computer-aided design
CB	Citizens' Band radio
CEO	chief executive officer
CFO	chief financial officer
CIM	continuous injection molding
Com	computer output microfilm
COO	chief operating officer
D&P	Detergents & Phosphates (a division of Monsanto Industrial Chemicals)
DGM	division general manager
DGM 1	division general manager when the study began
DGM 2	successor of DGM 1 during conduct of study
EMC	Executive Management Committee (the top five Monsanto executives)
EVP	executive vice president
FCC	Federal Communications Commission (a US government agency)
FDA	Food & Drug Administration (a US government agency)
GVP	group vice president
HR	human resources
MAT	marketing, administration, and technical expenses
MP&R	Monsanto Plastics & Resins group
NIH	not invented here
NPD	new product development
NPG	New Products Group
OPD	Office Products Division
OPET	oriented PET plastic bottle for hot-fill applications
PDA	personal digital assistant

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List of abbreviations

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PET	polyethylene terephthalate plastic bottle
PRC	Product Review Committee
R&D	research & development
RD&E	research, development & engineering
RF	radio frequency
ROC	return on capital
SBU	strategic business unit
TMT	top management team
UMC	unit manufacturing cost
VC	venture capitalist