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The Entrepreneurial Flame:

How to keep it burning brightly in your company

by Howard Muson

Maintaining the enthusiasm and motivation of your most creative, entrepreneurial-minded employees is difficult in the best of times. It is even more of a challenge during an economic downturn when resources are scarce, people are being laid off, and managements are loath to embark on risky new ventures. Learn how some successful companies manage to keep the entrepreneurial spirit flourishing in good times and in bad.

Every successful enterprise reaches a stage in its growth when the leaden hand of bureaucracy threatens to stifle the very spark of creativity and energy—the innovative spirit—that built the organization in the first place. This stage may be marked by groups of employees going underground to test new-product ideas, cadging resources wherever they can, or hiding their activities in “skunk works.” Or it may be seen in a gradual procession of talented employees out the door to set up their own ventures.

Recent Conference Board interviews with CEOs of innovative mid-sized firms show how the cultures of these organizations keep the entrepreneurial flame burning even in the worst of times. This report also

draws on the insights of experts who have worked with companies wrestling with the problem, including an interview with Gifford Pinchot, author of the 1985 business classic *Intrapreneuring*.

The companies described in this report are established firms that have grown beyond the entrepreneurial stage and aspire to reach greater heights. They range widely in annual worldwide sales, from the smallish \$30 million to the \$1.4 billion at the upper end of the mid-sized sector. All struggle with a common problem: the need to find a balance between effective management and control, on the one hand, and robust innovation and growth, on the other.

Build an open-minded culture

How's this for a bold company mission statement, taken from the web site of Cascade Engineering in Ann Arbor, Michigan: "Saying yes to a revolutionary idea may not be easy. But we believe that many unconventional ideas deserve to be tried and that seemingly impossible ambitions deserve to be pursued."

Fred P. Keller founded Cascade Engineering in 1973 to make plastic components with a system of injection molding. Cascade had only six employees at the end of its first year. Thirty years later it has 1,200 employees molding everything from chairs for Herman Miller to acoustic barriers for General Motors cars. The company has gone from \$10 million in sales after 10 years to \$250 million today, and Keller thinks it could grow to \$1 billion over the next 10 years.

Asked if the necessary structures to manage that large an operation had led to some bureaucratic hardening of the arteries, Keller replied that, if anything, his company suffers from "the other disease - which is maybe we're too chaotic."

Keller has twice had his company appraised by the Denison Survey, a method developed at the University of Michigan which benchmarks organizational effectiveness against other organizations surveyed over a 15-year period. On one set of dimensions—consistency vs. adaptability—Cascade Engineering came out both times at the adaptability end, which suggests high flexibility and innovativeness.

Keller doesn't believe in cash awards for employees who achieve breakthroughs for the company. "That's a dynamic that becomes quite political; people become very jealous of their ideas." Instead, Cascade Engineering celebrates achievements, such as winning patents, at every opportunity, for example, at an annual awards ceremony.

Unlike many entrepreneurs, Keller appears content to leave most of the innovation to others. He does sign off on projects involving a substantial investment. But the culture "allows failure to occur—as long as it doesn't kill you." The engineers in Cascade's labs have come up with steady and remarkable improvements in injection-molding technology, while Keller seems to busy himself looking for the Next Big Trend—for example, an "alternative transportation system."

New ideas go through a series of "gates" at Cascade Engineering to assess their viability, but Keller worries that even this system can be a "wet blanket" that smothers innovation. The process, he says, can kill good ideas with high profit potential, as well as poor proposals with low potential. "It's an engineering mindset as opposed to a creative mindset."

Stay small, stay fluid

W.L. Gore & Associates, the manufacturer of Gore-Tex fabric for outdoor apparel, has grown far beyond the entrepreneurial stage, while retaining its small-company feel and entrepreneurial flair. Based in Newark, Delaware, Gore, with a total of 6,000 associates and \$1.4 billion in revenues, appears at first glance to "thrive on chaos." But beneath the surface, everything's under control.

While working on Teflon at DuPont in the 1950s, Bill Gore discovered that the same synthetic material could be made into an effective insulator for signal cables. After failing to gain corporate support for the insulator he developed in his basement, Bill and his wife went off to start their own company. That was in 1958.

Bill Gore had learned that bigness, while it may be important for economies of scale, often casts a long shadow, denying creative work the light it needs to flourish. Limiting the size of his plants to no more than 200 people, he created what he called a “lattice” organization, in which associates have close contact, share information easily, and know who to call on for the skills and expertise they need. There is no formal chain of command at W.L. Gore & Associates; people commit themselves to projects rather than being assigned. “Sponsors” guide the work and careers of others; leaders emerge by consensus to solve specific problems or steer development of specific new products and technologies.

With this flat, constantly shifting, lattice structure—the organization chart shows everyone interacting with everyone else—W.L. Gore & Associates has been able to turn out a succession of innovative new products. Bill Gore’s son, discovered that stretching the same polymer used by his father to insulate wire produced a strong, porous material that was waterproof and yet allowed perspiration to escape. That discovery led to the development in 1976 of Gore-Tex rainwear. In addition to fabrics, the company now makes thousands of products, including microwave cable assemblies, synthetic blood vessels, barrier suits for biological protection, and long-lasting Elixir guitar strings.

The sharp decline in the telecommunications business, along with a general decline in manufacturing, hit the company hard, according to Chuck Carroll, the current president and CEO. But Carroll says the company is now back to double-digit growth—between 10 and 15 percent.

Much of the lattice structure remains, he says. Gore still tries to limit the size of its plants, although a few must now be larger to accommodate production of some Gore-Tex laminates. To expand production while maintaining the free-flow of ideas and its close-knit community, Gore has clustered 30 plants together in small campuses around Newark, Delaware, and Flagstaff, Arizona.

If Gore seems a bit chaotic to outsiders, under Chuck Carroll it is controlled chaos. Gore associates today live by a set of principles established by Bill Gore, among them living up to commitments; caring for one another’s personal and career growth; being fair; and consulting with associates before taking any action that might “shoot below the waterline”—hurt the company in some way. “We try not to make too many rules,” Carroll says. “If anybody ‘shoots below the waterline,’ we go back to fundamentals and try to figure out why. Maybe the associate wasn’t well enough educated in the culture, for example.”

Chuck Carroll doesn’t believe Bill Gore’s small-is-beautiful philosophy imposes limits to growth. “We structure opportunities around small teams and give them the freedom to operate. Each team is led by a product specialist who becomes the concept’s passionate champion. The team may include people from manufacturing, finance, sales, and other functions.”

The only possible limit on Gore's growth, Carroll concedes, is how fast it can integrate new hires into its free-form lattice structure. "We can't absorb too many people at one time who are not used to the culture."

How strait the gate matters

To speed the evaluation of new projects at every stage of their development, W.L. Gore & Associates has a tool called PACT—Profits Through Accelerated Commercial Technology. PACT sets up "stage gates" through which research on new materials and technologies must pass, and defines the time and attention to be spent on it at each stage.

- Before the first gate, a team of five people reviews the business case for the project. The team will examine five slides for each proposal, no more. It will make a preliminary judgment about whether the new technology or product makes sense as a business for Gore and is worth pursuing.
- If it passes this initial hurdle, the business case is then examined in more depth at the first gate according to a set of key questions: What is the concept? What are the alternatives? How viable would the business be?
- As testing and other development work goes forward, the team assesses the uncertainties—that is, risks—involved in the project. The greatest uncertainty will be at the first gate. The degree of uncertainty must be reduced at each subsequent gate until a point is reached where the risk is deemed tolerable.
- Major investments or opportunities are reviewed and followed by an Operations Committee made up of Chuck Carroll and divisional and functional leaders.

Push power away from the center

Clearly, the lattice structure isn't right for every company—probably not for many in fact. Gore's success, however, demonstrates that new ideas thrive best in an environment that shuns too many rules and too much centralized control.

Giant multidivisional companies like General Electric have recognized the benefits of pushing more authority out to smaller business units. For service companies like Walker Parking Consultants decentralized authority is absolutely essential to serving clients in creative ways. Walker Parking plans, designs, and restores parking facilities for airports, convention centers, and shopping malls around the world. Established in 1982 when a group in senior engineers bought out the former owner, the firm has had a participative management style from the beginning.

Chairman Frank Transue keeps the center small—only 50 of its 275 professionals and support staff work in the Chicago head office. Transue is based in Chicago, the CEO works out of Tampa. The rest of the organization's staff is distributed among 13 offices from Boston to Los Angeles. A managing principal in charge of each office has full authority to make agreements and carry out assignments for clients within guidelines and profit goals decided by the principals at twice-a-year meetings.

Most of the innovation must come from the field offices, where Walker executives are closest to clients' needs. "You allow your people latitude to do what they have to do to serve the client and feel empowered to do that," Transue says. "That's easy to say, but not easy to do." Walker Parking, which had \$42 mil-

lion in sales in 2000, has had to trim its sails during the worldwide economic slump. But Transue says sales are up in 2003 and the firm continues to encourage risk-taking.

The firm has taken advantage of the economic lull to enter a pair of ground-breaking ventures with a minimal investment. The first is an alliance with a Skokie, Illinois, firm that does high-level structural engineering and testing of concrete and other construction materials. That project, initiated by one of the field office V.P.'s, required only a \$50,000 investment and has already paid off in new business. Second, the Boston office has led the firm into program management for the first time; it is helping to organize a new system for controlling parking and revenue at Logan Airport.

Innovation, even in periods of sluggish growth, is vital to keeping creative people, Transue believes. "It does help morale. You do have people who like to belong to a firm that is on the move. In fact, it's a self-fulfilling prophecy."

Spend on R&D, even when it hurts

Acme United, a manufacturer of school and office supplies in Fairfield, Connecticut, is another company that has been on the move despite the recession.

Acme United has been around for 133 years, but has managed to retain its entrepreneurial edge. In the highly competitive office supplies market, CEO Walter C. Johnsen says, it is crucial to keep investing in R&D and new patents. "I firmly believe that if we don't keep that innovation flowing, at almost any cost, we're going to be watching from the sidelines."

About 5 percent of Acme United's annual sales is set aside for new-product development. "We have a rolling three-month pipeline of new products," Johnsen explains. "The products that will be introduced 12 months from now are in the debugging stage, and some are already being produced."

Acme United, a public company, had sales of \$34 million in 2000. Although it reported sales of only \$30 million in 2002, Johnsen says the lower figure was largely due to an accounting change. The company has been little affected by the economic slump. It has, in fact, increased market share during this period, he says.

Strong sales were propelled by the launch, in 2001, of a titanium scissor with blades that, according to Johnsen, hold their edge three or four times longer than anything else on the market. The new scissors have a wide variety of applications and have become a best seller in just 18 months. Since 2000, the company has also introduced a new family of kids' scissors and refreshed its line of patented math tools and rulers with different sizes and colors.

Where does the company get its new-product ideas?

"The concepts are all internally generated," Johnsen says. Acme United has only 100 employees, 38 of them working in its sole remaining factory. The rest of its production, and some of its product design, is outsourced. "Everyone in the organization is responsible for developing our product line. There is no formalized process. We discuss [new ideas] every day, in planning meetings, at my home. The idea for the titanium scissors came from one of our marketing managers, who had been investigating new technologies to enhance cutting edges."

Most companies with more than 100 employees, especially those with offices in different locations, can't rely for their new-product concepts on such informality. Nevertheless, the Acme United experience shows that good ideas cross boundaries—they don't always come from the CEO or a small management team responsible for new-product development:

- Engage all employees, regardless of department or function, in discussions of new ideas for products and services.
- Maintain the level of investment in research and new-product development even when it hurts. Johnsen calls this "blood money" – it's money you can't afford to spend but cannot afford not to spend.
- Hire people who are flexible and creative, whatever their function. "When interviewing, we look for that skill set."

Lead, follow, or get out of the way

The requirements of leadership change at every stage of a company's development. Joachim Schwass, a professor at the International Institute for Management Development (IIMD) in Lausanne, Switzerland, urges entrepreneurs to constantly ask themselves tough questions:

- Do I still understand what's driving today's market?
- Am I able to anticipate tomorrow's market requirements?
- Do I allow new ideas from others, or am I upset if they are not mine?
- Am I sufficiently flexible?
- Do I still like my job?
- Would another similarly structured company hire me as its CEO today?

Reward sponsors who clear the path

Mid-sized companies that want to diversify and grow require not only CEOs who value risk-taking but intrapreneurs, employees with a passion for new ideas and a determination to see them through to success within a corporate framework. But intrapreneurs also need powerful sponsors who can help them "wire around" the corporate system, according to Gifford Pinchot, author of *Intrapreneuring*.

Sponsors, in Pinchot's definition, are powerful executives who can help the intrapreneur get approvals, remove roadblocks, or obtain corporate resources for trying out ideas that may seem weird or impractical. Sponsors are in a position to make a phone call to grease the skids or build support for a project that has been rejected. They are not always among the top five executives in the company, Pinchot says, but are usually found in the top 50.

"Great sponsors have a tremendous sense of who the real entrepreneurs in the company are. They have an ability to coach them through to success, and the courage to defend them against the system. As the CEO of a mid-sized company, you have to know who these sponsors are and give them protection, because they will be in trouble for promoting intrapreneurs."

About the best incentives to stimulate innovation, Pinchot, who has a consulting firm in Bainbridge Island, Washington, offered these suggestions:

- Reward sponsors of innovations as well as intrapreneurs.
- In addition to other incentives, reward an intrapreneur by giving him or her more freedom to pursue their ideas on company time. "This person has earned the right to make mistakes with the company's money."
- Reward the team. If 15 people contribute to a breakthrough, it's a mistake to single out an individual for recognition.
- Set aside "seed funds" for employees with good ideas for new ventures that are supported by sound business plans.
- Offer stock options, a particularly useful incentive in a smaller public company. Stock options give employees a common stake in whether company shares go up or down, which tends to strengthen unity and cooperation.
- Balance spin-offs of new businesses with equivalent opportunities for "spin-ins." Control Data was an example of a company that went too far in one direction, says Pinchot, making it so easy to spin off that they lost all their entrepreneurs and their company.

Design fair procedures for screening

Inevitably in any entrepreneurial culture, only a few new ideas and projects will make it through and be pursued, while many will be rejected. How to do that without turning off—and driving out—your most creative people?

The challenge is make the criteria for acceptance clear throughout the company, and to provide fair and orderly procedures for weighing ideas and deciding which to pursue. To avoid burdening managers with too many proposals that have a slim chance of approval, Pinchot recommends teaching potential intrapreneurs how to write good business plans and how to critique their plans. Presumably, they will then be able to screen out some unworkable ideas themselves before they get to you.

Building an organization that effectively manages growth and yet maintains its entrepreneurial spirit is a formidable task, as we've seen. The two goals need not be contradictory, however, if the leadership:

1. understands that much innovative work is messy, unpredictable, and takes place "out-of-bounds";
2. encourages open and free discussion of new ideas across bureaucratic lines and functions;
3. pushes decision-making authority out to the periphery so that local offices are free to devise innovative ways of serving customers;
4. identifies and rewards not just great intrapreneurs but also the sponsors who clear the path for their success;
5. has clear, understandable criteria and fair procedures for judging ideas submitted by employees and deciding which will be pursued.

The care and feeding of intrapreneurs may be more critical to your company's future success than all the sophisticated management systems you have put in place.

Test yourself: How entrepreneurial is your firm?*

How strongly do you agree or disagree with each of the following statements as they pertain to your management philosophy?

	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
My company places a strong emphasis on research and development, technological leadership, and innovation	1	2	3	4	5	6	7
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
My company offers very few new products or services	7	6	5	4	3	2	1
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
When changes are made in my company's products or services, they are usually quite dramatic	1	2	3	4	5	6	7
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
My company is typically not an initiator but rather responds to actions that competitors initiate	7	6	5	4	3	2	1
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
In comparison to its competitors, my company is very often the first to introduce new products and services	1	2	3	4	5	6	7
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
My company typically seeks to avoid competitive clashes, preferring a "live-and-let-live" posture	7	6	5	4	3	2	1
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
In general, my top managers strongly prefer low-risk projects with normal returns and low uncertainty	7	6	5	4	3	2	1
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
In general, my top managers believe that bold action is necessary to achieve our objectives	1	2	3	4	5	6	7
	<i>Strongly Disagree</i>				<i>Strongly Agree</i>		
When confronted with uncertainty, my company typically adopts a cautious position to avoid making costly mistakes	7	6	5	4	3	2	1

Scoring: For a rough profile of how your firm compares with high-growth companies, add up all the numbers you circled. If your score is 46 or higher (out of a possible 63), chances are your firm is among an elite of entrepreneurial companies. The questions are a subset from an international survey of winners of the Ernst & Young Entrepreneur of the Year awards over the past 15 years. The leaders of more than 1,000 companies in 17 countries responded to the survey commissioned by the accounting firm, the Entrepreneur of the Year Institute, and the Kauffman Center for Entrepreneurial Leadership. The average score of respondents on this part of the survey was 46.2.

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