THE ENTREPRENEURIAL MINDSET

Strategies for Continuously Creating Opportunity in an Age of Uncertainty

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CHAPTER 12

THE MOST IMPORTANT JOB

Entrepreneurial Leadership

YOUR MOST IMPORTANT JOB AS AN ENTREPRENEURIAL LEADER is not to find new opportunities or to identify the critical competitive insights. Your task is to create an organization that does these things for you as a matter of course. You will have succeeded when everyone in the organization takes it for granted that business success is about a continual search for new opportunities and a continual letting go of less productive activities. You will have succeeded when everyone feels that he or she has not only the right but the obligation to seek out new opportunities and to make them happen. You will have succeeded when the hallways buzz with energy, when people come to work excited, and when they are proud to be associated with your dynamic organization. And, of course, you will have succeeded when the value you create within your organization translates into stakeholder wealth.

This chapter focuses on how your behavior as an entrepreneurial leader impacts the search for opportunity in your organization. What distinguishes leaders who are capable of sustained and significant business revitalization from other managers is their personal
practices on the job. These practices fall into three broad categories: practices that set the work climate, practices that orchestrate the process of seeking and realizing opportunities to grow the business, and hands-on practices that involve problem solving with the people at work on a particular venture. We’ll discuss each in turn, but before doing so we stress that these practices are important for creating an entrepreneurial mindset in general—irrespective of whether a specific new business model is being created. The practices we describe below are important for establishing a pervasive spirit and a willingness to seek out and grasp entrepreneurial initiative throughout your business.

The problem with launching new business models is that everything about a new business model is likely to be out of whack with the business model of your existing core business. The more the new business opportunities differ from the model in your base business, the more difficult it will be for people used to the existing model to understand them. Unless, and only unless, you pay attention to resolving the discontinuities between the new models and the base business, the very forces that made the old business model successful will tend to preserve it to the detriment of the business models you are creating (or reinventing, in the case of a major reconfiguration of your existing models).

Although the General Electric Company may be overused as an example these days, the reason is probably that it is one of the best examples of a leading team’s having systematically created an entrepreneurial mindset at every level. GE’s Jack Welch has proven to be a master at this in the two decades that he has been at the head of the company. He reduces the paralyzing effects of uncertainty through leadership. He isn’t afraid to tell people what they should focus on. At the same time, his organization frees people to capitalize on new opportunities through structures that encourage entrepreneurial behavior and the tools and training to make entrepreneurial behavior effective. Does it work? We think so. Take a look at table 12-1, which evidences the value GE has created since Welch took the helm in 1981.1

Welch summarizes his philosophy for managing in today’s world as follows: “You can’t predict anymore. But that doesn’t matter—what is important is that you must be able to adapt and exploit—
be agile enough to guess where the value is going and position yourself to exploit it if it does.2 Let's move on to what you'll need to do.

**Climate-Setting Practices**

The goal behind climate setting is to create for everyone in the business a pervasive sense of urgency to be working on the next new business initiative. Everyone, from the CEO to the shipping room staff, must be clear that searching for entrepreneurial opportunities is urgent and is everyone’s responsibility. Profitable growth becomes everyone’s charter.

To foster such a climate, the most important thing you can do is behave as you would like your people to behave, and to model this behavior consistently, predictably, and relentlessly. Not everyone can be charismatic. Anyone can, however, learn to be doggedly persistent in modeling the behavior he or she wants others to adopt. This is a timeless principle, taught in every historically great school for leadership—people will heed your behavior and follow your example, but they will not change what they do on the basis of words alone.

The most important behavior on your part involves dedicating a disproportionate share of your own time, attention, and discretionary resources to creating new business models. Existing businesses, and the leaders in charge of them, face little difficulty in articulating their needs, building a case for their support, and attracting people. Entrepreneurial initiatives, on the other hand, are usually seen as marginal or unimportant in their early stages. Unless you personally allocate to
them disproportionate attention, disproportionate resources, and disproportionate talent, they will get squeezed by the existing business to the extent that they never have a chance to take off. Your challenge is to provide counterpressure to the inertial forces that lead your people to constantly attend to the demands of today’s business.

**Disproportionate Attention**

A major theme of this book is how the advent of uncertainty, unpredictability, and entrepreneurial opportunity has made the sensible management practices we learned to use in more stable situations useless, even dangerous. One of these traditional practices, which has a lot of face validity, is that leaders should focus largely on the most substantial lines of business, the most important clients, and the most profitable products. To some extent, this makes sense (as we discussed in chapter 7). It can lead you seriously astray, however, when your focus on what is most important today causes you to neglect tomorrow’s opportunities.

A vital ingredient for the success of your new business development program is that your very best people want to work on new initiatives. They will look to you for signals that new businesses are important to you and to their future careers. So, when the often-small, untried, and risky (in the sense that returns are unpredictable) initiative gets space on your managerial agenda and is taken seriously, talented and ambitious people in the company are much more inclined to see them as development opportunities rather than career quagmires. In far too many companies, taking risks is perceived as fatal, especially if results were not as anticipated.3

A powerful symbolic and practical lever for communicating the importance you attach to new business development is how you manage your own agenda. Consider GEFS (GE Financial Services). Though it is a huge operation today, it started from modest beginnings—with a portfolio of installment loans supporting the GE appliance business. The former head of this operation, Gary Wendt, who is credited with much of the enormous success of GEFS, used his personal agenda as a simple but inordinately powerful tool for growing the business into ever new entrepreneurial arenas.
Over the years, he used his personal agenda to make it unequivocally clear that he expected entrepreneurial business growth from every member of management. At every major meeting, the topic of business development was on the agenda (usually in the number one spot). In every annual review, managers were asked to demonstrate the revenues they had created from businesses that did not exist five years before. From division heads to newly hired analysts, everyone was held accountable for some set of activities having to do with creating entrepreneurial revenue and profit streams. In short, no one who worked in the organization could avoid the unremitting focus on new business development.

You need to make sure that you are similarly consistent, predictable, and focused, and that you sustain this emphasis over a long period. Pressure applied only once is soon forgotten, and alternating pressure (as in flavor-of-the-month management) will cause people to be confused, disillusioned, or angry. Wendt's consistent, visible, and predictable attention to business development created a pressure in GEFS for entrepreneurial business growth that took it from the $300 million installment loan portfolio we looked at in chapter 6 to a financial services behemoth with $250 billion in assets under management when he left in 1998.

Examples of Wendt's single-minded determination to drive growth through entrepreneurial transformation at GEFS are numerous. Years ago, for instance, he was asked whether his agenda would change if someone rushed in and told him that the computer room was on fire (implying that his business could be completely destroyed). Wendt replied that he employed firefighters to handle such emergencies. As the leader, his most important job was to keep people focused on business development. Since business development is an uncomfortable and unpredictable process, Wendt knew that if he allowed it to appear to be a low priority for him, all those working for him would heave a sigh of relief and go back to business as usual, with new businesses struggling to find a place on the priority list. In fact, as he remarked, even if he did try to get involved in putting out the fire, he would probably only interfere with the efforts of the highly competent people employed to do so.
We can’t stress enough how important it is for you to visibly demonstrate your commitment to new business initiatives and sustain this commitment in everything that you do. Only you can make your associates realize that no other issues are important enough to drive new business initiatives from the agenda.

We do not mean to imply that focusing on new business initiatives rather than on your existing businesses comes at no cost. Disproportionate attention should not be allocated lightly. No matter how smart or determined, no entrepreneurial leader is dealt more than twenty-four hours in a day. Time spent on entrepreneurial activity is time denied to the existing business, which may also need as much attention as it can get from you. This reinforces the importance of setting priorities and making strategic trade-offs between the entrepreneurial projects you decide to pursue (as discussed in chapter 8).

**Disproportionate Allocation of Resources**

Though critically important, properly managing your own agenda and personally leading the drive for entrepreneurial opportunities is not enough. Management of the agenda needs to be reinforced by the allocation of resources to entrepreneurial initiatives that are disproportionately large relative to their ability to deliver revenues or profits in the near term.

By disproportionate resources, we mean budget, access to operating capacity or operating assets, and, most vitally, the very best people. Ironically, these are the very resources that are highly desired by managers of the existing business, who are apt to hotly contest any other claim on them. Like the payment of disproportionate attention, the disproportionate allocation of resources to new business models has its costs. Every dollar and every hour of operations capacity allocated disproportionately to entrepreneurial initiatives is money and time denied the existing business. Disproportionate allocation must be a deliberate process, with commitment of resources being visibly recognized as a matter of strategic choice, not a struggle between long- and short-term goals. Both are important, and both need resources. For this reason, your strategy must visibly dictate how many of your resources will be devoted to the different types of proj-
ects in your portfolio (see figure 8-3). Establishing resource commitments to new business initiatives in this way creates an explicit recognition of their option value.

You need not personally decide which fledgling opportunity is most deserving. An approach that some very successful firms have followed is to create structures in which entrepreneurial initiatives have a legitimate claim on getting the resources they need without being entirely at the mercy of the managers in charge of major divisions. For example, 3M's well-known 15 percent rule dictates that (with no questions asked) 15 percent of an individual's time can be spent in pursuit of ideas that the person thinks are promising or important to the future of the company.

In other companies, the same effect is created by allocating budget to smaller, separate entities that can afford to pay attention to new initiatives. For instance, a central development fund, often run by the equivalent of an internal board, can push resources at promising opportunities. Joint ventures and research consortia can provide the separation and focus that entrepreneurial initiatives need. In pharmaceuticals, for example, a lot of product development is actually done by small start-ups (e.g., in biotechnology), which then partner with the more established firms to get access to their resources, experience with the regulatory approval process, and marketing clout.

The rise of the stock market and the liquidity of the IPO market of late have created still another mechanism for releasing disproportionate resources to entrepreneurial initiatives—namely, allowing them to wholly or partially spin off from their parent (which may or may not retain an equity interest). Lucent Technologies (itself a spin-off from AT&T) and Hewlett-Packard have been exploring this way of funding entrepreneurial ideas.

**Disproportionate Allocation of Talent**

Finally, you must be prepared for your organization's top talent to work on entrepreneurial initiatives. This can create a painful dilemma. When top talent works on an entrepreneurial initiative, the current business is weakened accordingly. However, if only mediocre talent is assigned to the difficult task of new business development, the ventures are doomed. Furthermore, allowing ventures to be run
by mediocre people sends an even stronger signal to the rest of the business about your real priorities. The smart people in the firm will recognize that business development is not truly a priority for you, and they will organize their own priorities accordingly. The message: If you don’t walk the talk, only the dumb people will listen.

**Orchestrating Practices**

People find uncertainty much more manageable if it can be framed, better understood, and simplified. One of your challenges as an entrepreneurial leader is to help your associates cope with the difficulty of determining what to focus on and how their priorities should be set. You do this by taking full burden of uncertainty from them. Well-meaning managers trying to become more entrepreneurial can easily go wrong in how they approach the management of uncertainty. They mistakenly believe that imposing any discipline on entrepreneurial development will kill off creativity and smother initiative.

Nothing could be further from the truth. As we have argued throughout the book, what is needed instead is considerable discipline, albeit a different kind of discipline—the kind used by habitual entrepreneurs. They realize that many entrepreneurial ideas will not lead to business success. They realize that to have enough resources to explore the options that may ultimately open an opportunity, they must exercise parsimony. They realize that creativity that doesn’t lead to products and services that meet real customer needs at a sensible price does not increase the value of the firm. They realize, at the same time, that most people are more effective if they don’t have to cope with the paralyzing effects of uncertainty.

**Ballparking**

One way to reduce uncertainty for people is to specify what type of entrepreneurial opportunities you expect people to be seeking. Drawing on an American idiom, we call this ballparking. A ballpark is a place where baseball is played. To come up with a ballpark estimate, therefore, is to show people a big-picture, rough definition. In ball-
parking, you roughly specify the arenas in which you want your people to play and how they should try to play them.

Ballparking involves defining the entrepreneurial directions that can be taken and, just as important, those directions that are not to be pursued. To beef up your opportunity register, give people room to come up with many entrepreneurial ideas. At the same time, there are limits to how many ideas you can pursue and how many you can genuinely excel in pursuing.

Defining a ballpark is particularly important for established businesses moving into a new business model and away from deeply embedded old ones. The business press is full of stories of large companies that have powerfully dominant positions in their markets and considerable resources, but that have not communicated a clearly thought-through plan for driving growth and increasing shareholder wealth. To illustrate just how challenging—and how important—ballparking can be, let’s look at some large companies: AT&T (box 12-1), Sears (box 12-2), Coca-Cola (box 12-3), and Citibank (box 12-4). We will compare how senior managers struggled to delineate ballparks for them. In closely studying the examples of these firms, we have also found that the definition of a ballpark can be remarkably useful to the individual units of a business—departments or branches. All that you need to do is narrow your scope when defining the ballpark. Ballparking is also useful to the smaller firm, as we discuss in an example below.

The art of ballparking is to decide, preferably with key people in your company, in which arenas you will play and what new arenas will be pursued. You then let the people get on with playing the game. A simple statement of vision and mission is not enough. This is a myth. Vision, which we believe to be vitally important, has to do with what the business holds dear—its purpose, what makes working there more than just a job, what values bind employees together, what they want to accomplish as a group. Ballparking is a more focused idea. It is much more actionable, and it delineates the arenas in which the business will be competing if the company is to achieve its vision. To effectively take entrepreneurial initiative, people need something much more specific than a vision statement: they need to know what business directions to pursue in order to deliver on that vision.
BOX 12-1

"ALL SIZE AND NO FOCUS" AT AT&T

In 1984, Judge Harold Green launched a telecommunications revolution by mandating the breakup of AT&T's monopoly over telecommunications businesses in the United States. This initiated years of floundering, during which the telecommunications giant tried to create a new and compelling identity for itself. Foreseeing the convergence of voice and data communication, as well as the growing importance of computers, some managers argued that AT&T should move aggressively into the computer business. This move initiated a costly, failed venture into computing, which was followed by the hostile takeover of NCR, a computing and related-product company. At the time of the acquisition, NCR revenues were $7 billion. Six short years later, revenues had dropped to $4 billion. Moreover, even though the hardware side of the business was doing well, its managers found themselves increasingly hampered in their efforts to grow by their customers' reluctance to do business with a competitor from the core telecommunications business. Eventually, in CEO Robert E. Allen's own words, line management realized that the firm was "all size and no focus." The subsequent trivestiture of NCR and Lucent Technologies and the later withdrawal from a number of experimental markets and services have basically left AT&T as a long-distance telephone-operating company. Today, as the former Bell operating companies and new entrants begin to muscle into this business, Allen is no longer at the helm.

It is therefore one of your primary responsibilities to demarcate the acceptable arena for entrepreneurial development by setting up the parameters that define which business initiatives are acceptable to you and which are not. The challenge of ballparking is to think through which entrepreneurial initiatives the organization is capable of deploying and which initiatives it cannot.
MANAGERS AT SEARS ARE NO STRANGERS TO THE DEMANDS OF CHANGING BUSINESS MODELS. FROM ITS ORIGINS AS THE VIRTUAL CREATOR OF CATALOG-BASED MERCHANDISING AIMED AT CUSTOMERS TOO FAR AWAY TO SHOP IN PERSON TO ITS NOW-UBIQUITOUS PRESENCE IN THE SUBURBAN MALL, SEARS MANAGERS HAVE PROVIDED SEVERAL GENERATIONS OF U.S. CONSUMERS SUPERLATIVE VALUE. BY THE 1970S, HOWEVER, THE OLD MODEL HAD BEGUN TO LOSE ITS LUSTER. AGGRESSIVE COMPETITORS SUCH AS KMART AND WAL-MART WERE CAPTURING SIGNIFICANT SHARES IN THE CONSUMER RETAIL BUSINESS, AND THE TRADITIONAL OPERATING PROCEDURES AT SEARS PUT IT AT A COMPETITIVE DISADVANTAGE RELATIVE TO ITS MORE TECHNOLOGICALLY ADVANCED RIVALS. Moreover, retailing in general was regarded as an increasingly competitive and unattractive industry. Throughout the 1970s and much of the 1980s, Sears managers shifted their emphasis from retailing to several alternative business models, diversifying into banking, insurance, real estate sales and development, credit cards, eye care centers, mutual funds, and auto supplies, while still trying to maintain the company’s core retail and catalog businesses.

The resulting conglomerate was judged by many observers to be a chaotic mess. In trying to turn Sears around, CEO Arthur C. Martinez made a conscious decision to leverage future new business opportunities from the company’s core strengths, which he judged to stem from its strong brand-name recognition with consumers. Martinez began his turnaround effort in 1992 by redefining the ballpark. The revitalized Sears organization has forged a retailing core devoted to the “Three Cs: Sears as a Compelling place to shop, a Compelling place to work, and a Compelling place to invest.” This ballpark was reinforced by what he termed the Three Ps: Passion for the customer, the value added by the People, and the passion for Performance leadership. Businesses that didn’t belong in this ballpark—such as financial services—were divested.
"A Coke Should Always Be within Arm's Reach of Desire"

The late Roberto C. Goizueta has been given credit for recognizing the strategic implications of the insight that soft-drink consumption is largely a function of availability. In light of this observation, he determined that it was only through aggressive promotion of its global brand, and the logistics to back it up, that Coca-Cola could hope to hang on to its share of the soft-drink market. Instead of pursuing a business model that relied on the manufacture of relatively inexpensive syrup, to be distributed by independent, separate bottling companies, Goizueta designed a new business model in which the global distribution of the product created important profit flows. He thus expanded Coca-Cola's ballpark. At huge cost, he invested in purchasing and, as necessary, building global bottling and distribution capacity, thereby creating an integrated global soft-drink distribution business. In so doing, he established strong central controls and processes to ensure that the brand was used consistently everywhere in the world. He captured additional profitability throughout the chain and positioned Coke for major global expansion.1

1 Today, Goizueta's global strategy is being carefully redirected by newly appointed president Douglas N. Daft, who takes the position that the next wave of growth for Coca-Cola will come from increasing focus on tailoring the company's products to local needs and decreasing the tight control from its Atlanta headquarters. See Constance L. Hays, "Learning to Think Smaller at Coke," New York Times, February 6, 2000.

In trying to establish your firm's ballpark, you may find the following exercise helpful. First, articulate a number of criteria for the least desirable entrepreneurial extensions of your existing business. What types of businesses do you not want to participate in? You should list many types of businesses that are undesirable to your organization. It's important to articulate these criteria in terms specific to the way your business operates—anybody can say, "We don't
WALTER WRISTON'S “FIVE I’S” MOVE CITIBANK INTO THE FUTURE

A recognized visionary and statesman for the industry, Walter Wriston built for Citibank in the early 1980s a new ballpark that propelled not only Citibank but the entire U.S. banking industry into previously unforeseen directions. This bank, declared Wriston, could no longer continue to rely on traditional services, which were coming under increasing margin pressure, and it could no afford to rest on its considerable success in the institutional and investment banking arenas. Instead, he told his managers, he wanted new business in every one of what he termed the “Five I” arenas: individual, information, insurance, institutional banking, and investment banking.

Although not all of the moves in entrepreneurial directions worked out, the vision propelled massive growth and development in such brand new (to Citibank) businesses as ATM-supported branch banking, consumer credit cards, and insurance annuities sold near bank branches. It also foreshadowed the merger of Citibank with Travelers Insurance in 1998, which created a massive financial services powerhouse.

want to develop businesses in low-profit, high-fixed-cost markets.”

Say instead, “We don’t want to develop any businesses in which the value perceived by the customer is under the control of another firm and we are simply a component supplier.” Then explain why you’ve made these choices. What are the qualities of these businesses that render them unattractive? You want to establish, eventually, a set of criteria for screening out entrepreneurial ideas that may be generally attractive, but are not a good fit for your business.

Delineating unattractive business arenas provides a realistic backdrop against which you can now begin fleshing out the qualities that make a business initiative attractive to you. What aspects of these opportunities make you believe you can profitably manage them?
Having profiled the criteria that make potential entrepreneurial developments attractive, your next step is to specify the underlying logic of the criteria. In other words, make a connection between what makes the selected business criteria attractive and what it takes to succeed in those types of markets.

Try to develop some short, simple statements that rapidly convey the kinds of businesses you want to go into. For instance, when we were working with Texas Instruments’ radio frequency identification business (TIRIS), one criterion that came out of our ballparking session was “Is it smart?” The rationale behind this question was that the company did not wish to enter application areas in which the particular advantages of their technology would not be well utilized (and consequently not recognized by customers as a basis for price premiums).

The final challenge is to develop, if you can, a powerful image to communicate your ballpark estimate.

Let’s illustrate with the example of an acquaintance, a Scandinavian entrepreneur we shall call Peter, whom we consider adept at starting up businesses. His record bears him out: He and his two brothers have orchestrated the launch of more than two dozen entrepreneurial businesses. Peter’s philosophy is to create entrepreneurial businesses that can be spun off to the start-up team or sold off to large companies seeking new business opportunities. Over the years, the real strengths of his companies have been in applying computer-aided design and computer-aided manufacturing technologies to settings in which these techniques had previously not been used. This meant consolidating fragmented industries or creating new niches within previously existing industries.

Peter is very disciplined with respect to his least desired businesses. He is not interested in businesses which do not solve a demonstrable problem that customers really want solved. He doesn’t consider businesses that are likely to attract the attention of major global players, such as Japanese and Korean companies. Neither is he interested in businesses limited only to his domestic market in Scandinavia: Because Scandinavia is a small market, its growth potential is limited.

As a result of carefully considering the kinds of businesses he doesn’t want, Peter has derived a very crisp articulation of his “most wanted” businesses. He sums up his criteria in a rule he calls “50 to
the power of 4." By "50 to the power of 4," he means that he's interested in any business proposal that has the potential to deliver 50 million kronor ($8 million) in profits in each market by capturing 50 percent market share with 50 percent margins in each of 50 different countries. The "50 to the power of 4" rule saves his organization a lot of time by letting his people quickly screen out a lot of business ideas that their boss would see as having insufficient upside potential. The 50 percent market-share potential directs his associates to only those businesses that plan to attend to a real and well-understood customer need or problem. The 50 percent margin potential means that customers will be willing to pay him very well to solve the problem; by solving real problems for customers who are painfully aware of them, he knows he can charge a premium and capture a differentiated position. And the 50-country potential means that he can establish a highly profitable position, and can do so in niche markets that are unlikely to attract massive competitive response from large global competitors.

Peter does not hold his people strictly to each "50"—it is the basic principles that concern him. If there is a compelling argument to justify bending the "50 to the power of 4" rule, he can be persuaded. The image of what he's after, however, is crystal clear. His ballpark specification provides room for his employees to come up with many ideas to develop entrepreneurial initiatives at the same time that it lets them quickly reject those that they know will not measure up to his requirements.

The origin of his "50 to the power of 4" rule resides in his understanding of the conditions under which his firm's strategic strengths will allow him to succeed in gaining a large market share at a high margin. These strengths include the following:

- He can draw off his deep skills in CAD/CAM (computer- assisted design/computer-assisted manufacturing) by entering fragmented industries and using CAD/CAM technology to consolidate the industry.
- He can deploy the advantages that Scandinavian companies have in that they are accepted in parts of the world where many other nations' citizens are viewed with dislike or suspicion.
• He can capitalize on the centuries-long Scandinavian tradition of doing business in many countries outside their small home markets, using, among other things, their renowned multilingualism.

The above example responds to the first three steps that we suggest you think through—first defining the least-wanted businesses; then defining the most-wanted businesses, being clear about what will drive future success and capturing the key points in short, simple phrases; and finally, creating an idiom or image to symbolize your idea, which will help to give your ballpark specification staying power. The “50 to the power of 4” symbol used by our Scandinavian entrepreneur, the Three-Cs/Three-P’s of Martinez, and the Five Is of Wriston are great examples.

Reducing the concept of the ballpark to a simple, powerful image can be a daunting task. It requires insight and discipline to decide on the core drivers for future entrepreneurial development. But if you can do it, you’ll be providing everyone in your company with a single beacon that illuminates where your business’s destiny lies.

Once you’ve specified the ballpark, which shows people the acceptable arenas in which entrepreneurial initiatives may be pursued, your next task is to lay the ground rules that will tell people just how these initiatives should be developed. This is where all that we have covered in the book comes together, where the management processes that we have described so far become part of everyday life as you create an entrepreneurial mindset.

Real Options Reasoning and the Discipline of Parsimony

As we have argued throughout the book, the right way to play the business development game is by using real options reasoning. This means starting in such a way that investments and launch costs are minimized until the upside potential is demonstrated.

Try to make parsimony with respect to resource expenditures a way of life. Try to get people to look for entry strategies in which the focus is on earning the right to invest in assets or to incur fixed costs by demonstrating revenue potential ahead of such investment. Left to their own devices, people will seldom willingly impose the discipline of resource parsimony on themselves. They find it much easier
to spend their way out of problems (especially if it’s not their own money they are spending).

How do you accomplish this? Just as you create the urgency to pursue new businesses, your own behavior will communicate to people the right way to launch them. Real options reasoning is reinforced by your practices. If every time a project is proposed, its proponents know that you will challenge them to demonstrate that they have spent their imagination instead of, or ahead of, your money and resources, they will be motivated to develop the project like a resource-constrained entrepreneur. They will learn, for instance, to reduce investment wherever they can. They will avoid incurring assets, fixed costs, and start-up expenses unless the returns justify them. They will think twice before making a decision that could be expensive. On the upside, they will be genuinely focused on early wins that pave the way to successes.

**Discovery-Driven Planning, Discovery-Driven Philosophy**

Discovery-driven planning, discussed at length in chapter 10, is a way of planning that corresponds to a philosophy about running new initiatives. In this philosophy, it is not a crime to fail, only to fail expensively and without learning. It is not a crime to miss deadlines, only not to know why. And it is not a crime to admit that you were wrong, only to be unable to articulate the logical basis for your original assumptions. Although habitual entrepreneurs think and manage this way intuitively, a discovery-driven philosophy runs counter to what many people have been taught about good management.

Some concrete expectations that you can set involve the way that discovery-driven planning will be used in your organization. First, it must be used as a dynamic management tool rather than a static exercise. People need to realize that this isn’t a rote exercise that they go through to get projects approved, but a powerful way of learning what the true business opportunity is and how to capture it. Second, people need to pay attention to all the aspects of the plan. They need to understand the market and competitive benchmarks, their organizational deliverables, the logic underlying their assumptions, how they will move from milestone to milestone, and, most importantly, how they will test assumptions at the lowest possible
cost. Unless you, as a leader, make it clear that you expect to see assumptions checked and validated, the reverse financial statements updated, and the business model reassessed at key milestones, people soon stop paying attention to these activities.

A further, crucial role you play as the champion for the entrepreneurial mindset in your firm is to communicate a discovery-driven philosophy to senior executives and external stakeholders (such as stock analysts). The pressure that these people place upon those trying to develop new businesses can lead their reversion to more conventional methods. You need to consistently explain the logic behind a discovery-driven philosophy, to be prepared to offer evidence in support of its effectiveness, and if necessary, to bear the blame for those well-managed efforts that don’t turn out as expected.

**Hands-On Leadership Practices**

The final set of leadership practices we’ll discuss are those in which you actively champion initiatives. As a leader, when you do become actively involved in identifying and developing new ventures (as opposed to creating a climate and orchestrating the behavior of others), you personally can have enormous impact. In a small organization, this will be a routine part of your job. In a larger one, you’ll want to conserve your energies to focus on those initiatives that you believe are the most important for the future of the organization and for which your skills and talents will offer the greatest return.

The first and most important role that you will play is to use the perspectives that you have developed through the application of techniques like those in this book—namely, to uncover entrepreneurial insights with the potential of forming the basis for major market breakthroughs that are uniquely accessible to you and your firm. We’ll focus on four distinct activities: First is the identification of these insights. Second is the conversion of each insight into an actionable business description that is easily comprehended by everyone responsible for its execution. Third is the building of pervasive organizational resolve to pursue this business proposition. Fourth is the discharge of entrepreneurial leadership obligations. It is your job
to build the “speed, simplicity, and self-confidence” (to use Jack Welch’s famous phrase) needed to assure rapid and effective execution.

**Identifying Entrepreneurial Insights**

The analytical processes described in this book will help you spot opportunities for business growth that your competitors are less likely to see. You will also be able to execute entrepreneurial strategies that they can’t copy, simply because they aren’t you—they don’t see things from your perspective. As you revisit your opportunity register, consider whether any ideas there may represent entrepreneurial insights with high breakthrough potential. In particular, look for opportunities in the following situations:

- Formerly tolerable attributes of the industry are showing signs of becoming more dissatisfying to segments of the market, especially lead-steer segments, as discussed in chapter 9. Lead-steer segments are opinion leaders whom others will follow, the way a herd follows the leading animal.

- Your analysis of the consumption and value chains suggests that new technologies, infrastructures, or data systems could be deployed to remove or reconfigure links in these chains.

- An entire industry is operating on the basis of assumptions that you may be able to challenge (examples of mistaken assumptions: Xerox patents are unassailable; the piano industry is mature; nobody wants black-and-white TVs anymore).

- Well-established business models in an industry may soon succumb to a force for change that you have identified and are positioned to capitalize on. For instance, the ability to create huge aggregate markets by consolidating needs across many small players is a force that predictably will disrupt business models in many industries. Similarly, advances in manufacturing technology now make it feasible and cost-effective to create custom-tailored products for ever-smaller market sizes, a force that promises to revolutionize not only the way products are made, but the way they are sold and positioned.
Your organization is developing capabilities that can attend to the needs of customers in another industry (e.g., digital versus chemical processing of images in photographic applications).

The variance of performance across firms in an observed industry is low, but there are signs that some major change is pending (e.g., formerly regulated industries going private, industries that never used to be competitive seeing a surge of new competition).

A new kind of problem category is becoming big enough to generate increasing attention and you see a way in which your firm might attend to this problem. For instance, with more and more women in the workforce, the traditional role they played in family and community comes under stress, creating new needs. Examples of the kinds of new problems are arranging transportation, medical care, and other services for children during working hours; managing the care of the home; and staffing volunteer organizations. Some of these problems might represent business opportunities for the firms prepared to capitalize on them.

New technologies are coming into a market by serving segments currently at the fringes. Often, major technological discontinuities first enter a market in applications that initially appeal to only a few specialized segments seeking extreme values of the attribute that the technology delivers.

In the shorter term, you see the delayed effects of discontinuous change beginning to appear in an industry. When a major change event occurs in an industry, the effects of various organizations' responses to it may have major lags. For instance, firms that have changed their purchasing policies will not feel the effects of the change for some months. Similarly, firms that have revised their budgeting policies will not feel the full effects of the changes for perhaps a year. In these circumstances, you can be prepared to address the lagging need by seeing its emergence before your future customers do.

In working through this process, you may identify a set (not too big a set, though) of opportunities that your firm is in a unique position to capitalize on. The next step is to qualify these insights.
Converting Entrepreneurial Insights to Business Propositions

Having identified a few core insights that you think may be key to future breakthroughs, your next challenge is to convert each one into a powerful, actionable, business proposition. To be powerful, a business proposition must have three properties: it must be simple, it must be actionable, and it must resonate with those responsible for its execution.

When it comes to simplicity, our acid test is whether you can write the proposition on a business card and still convey your meaning. This kind of simplicity makes the business proposition easy to comprehend and to communicate. Canon’s business proposition for its personal copier business was completely unambiguous: “to sell a copier that is small, inexpensive, and reliable enough for personal use on a secretary’s desk.” Yamaha, too, broadened the horizons of what had been strictly a piano company with its business proposition “to sell keyboards.” A good way to start a business proposition is to link it to the market with the opening phrase: “Customers should pay good money for . . .” or “Customers should embrace . . .” Note the use of the word should, which indicates that we are still talking about a proposition—not a fact as yet.

As with ballparking, the power of the business proposition increases if it can be reduced to a simple, powerful, and actionable image. Consider the clarity, simplicity, and actionability behind Priceline.com’s “Name your price” business proposition. Once you have that image in mind, the operational challenges required to make it happen will crystallize. People can mobilize around it, can focus on it, can talk about it. Actionable images can be pictures, symbols, metaphors, analogies—anything that makes it easy for people to instantly understand and resonate with the basic operational challenges.

Building Resolve

Once you have put together the business proposition, your next step is to get people to commit to the launching of a new business initiative. This requires a commitment and resolve from others in your organization.

Resolve starts with a business purpose that has visceral meaning for the implementers. The more your venture appeals to personal sentiments, the more prepared people will be to make inordinate
efforts to get it done. For this reason, you should try to build personal meaning into the venture. You increase resolve when you can sketch out the benefits of meeting the challenge in ways that appeal to your people: to their values, their competitive spirit, their sense of accomplishment, their professional pride. In short, you want to connect the outcome of the venture to something that the implementers themselves intrinsically value.

Another way to get people to commit to an initiative is to involve them in the process early on so that they can play a part in shaping it. People are more likely to devote their energy to something that they have helped to create. Another advantage of giving people a voice early in the process is to get different perspectives on the business proposition. Since you are not infallible, it is possible (given the amount of uncertainty most managers face) that adjustments to the business proposition will have to be made because your initial underlying assumptions are not supported. Because you have the same cognitive limitations and biases that everyone else does, it is important to put the emerging business proposition to critical test by engaging in constructive debate with those whose opinions may be different from yours. You and those responsible for execution need to have confidence that you aren’t deluding yourselves. This, too, helps build people’s resolve to stay with the project.

Yet another way to build resolve is to refrain from proposing lofty long-term goals that appear impossible to achieve. Break them down into shorter-term, more easily accomplished goals that set the longer-term trajectory. This will give people a confidence-boosting sense of accomplishment early on, despite a long road ahead. For example, the manager of a venture into the publishing business was faced with exhorting the sales force to go out and increase market share by 20 percent in two years. She faced a seemingly impossible task by converting it into something much more manageable. She showed the sales force that to accomplish this goal, all that they needed to do was to capture ten new orders per month. The sales force was able to mentally picture the challenge of capturing ten orders per month much more easily than they could the enormous long-term goal.

Finally, find ways to recognize and celebrate the short-term successes as they occur along the way. In the preceding example, the
sales manager called the entire sales force together with the support
staff each month to celebrate the big sales and the progress toward
the target, building a community of purpose that drove everyone in
the business to increased effort.

Discharging Entrepreneurial Leadership Responsibility
As the business proposition takes shape, people will depend on you to
assume some important leadership responsibilities, which we discuss
below. As mentioned earlier, the assumption of these responsibilities
is characteristic of the entrepreneurial leader. It is important that you
exercise them religiously if you are to instill in everyone in your
organization the desire to take entrepreneurial initiative.

Framing  As we discussed in chapter 2, the way you get a new business
initiative going is by establishing a challenging frame. It’s important
to realize that other kinds of framing can be essential as well. For
instance, the reverse financials and benchmark specifications dis-
cussed in chapter 10 can be used to set the frame for the technical and
organizational challenges to be overcome. You can then unleash the
engineering and scientific talent in the firm upon these clearly speci-
fied challenges.

We learned the importance of framing the technical challenges
in an initiative when we spoke with Keizo Yamaji of Canon, who has
been credited with transforming Canon from an average-performing
photographic company into the printing, imaging, and computer-
based powerhouse it is today. The inspiration for the business came
from a consulting report he read, which said that Xerox’s patents
were unassailable. Most managers would have given up at that point.
Instead, Yamaji reasoned that if this were widely known, it would
keep competitors out; if he, then, could crack the patent problem, he
could have the market to himself. He spent a long time in the field
observing how people interact with copiers and noticed a set of needs
that were completely underserved by incumbent Xerox. This was the
market for just a few copies of short documents. Xerox offered great,
big machines designed to produce hundreds of copies.

Next he carefully assessed the skills of his engineering staff and
stacked up these talents against what he thought would be the charac-
teristics of a so-called personal copier. Then he called in the engineers:
[I told them,] "I want you to make me a copier. It can be no bigger than a large breadbox. It can't retail for more than $1,200 in the USA. It mustn't ever need servicing. And I want it in eighteen months."

As he put it, "At first the engineers did what engineers always do—they whined! But then, guess what happened—they went out and they did it. It was a little bigger, it cost a bit more. While it did need servicing, it needed servicing very seldom, and it took just under two years to build instead of eighteen months. But I got my copier and the multibillion dollar business that it represented."

Now imagine the difference if he had told them, "I want you to build me a small, cheap, reliable copier—soon."

Yamaji framed the project, but he didn't micromanage it. As he explained to us how he went about creating the personal copier, he observed that his biggest challenge was to set up a challenge for engineering that would push people to the limits of their capabilities without pushing them over their limits. This is where your personal judgment is deeply needed by the organization.

As Yamaji realized, his obligation as a manager launching an entrepreneurial business was to frame the challenge for his people clearly enough and then get out of their way. "It was not my job to do it," he said. "My job was to frame what the outcome should be in terms specific enough to let them go do it."

**Absorbing Uncertainty** It is particularly important to help your people cope with uncertainty by circumscribing the number of risks they perceive. Failure to do so can seriously hamper the progress of the entrepreneurial business, because most people, faced with massive uncertainty, find it very hard to take decisive action. Afraid of being wrong, they freeze in the headlights. The problem is that we are increasingly working in a world in which it is more expensive to be slow than it is to be wrong—provided that you have pushed your people to operate with parsimony, you can probably afford a whole lot of learning-rich setbacks as people figure out what the future opportunity will be.

As a leader, your task is to make uncertainty less daunting. The idea is to create among your colleagues the self-confidence that lets
them act on opportunities without seeking managerial permission. Employees must not be overwhelmed by the complexity inherent in many business situations.

How do you accomplish this? By taking the uncertainty out of the situation. They need to hear you say, “Assume that X, Y, and Z are going to happen. If you execute on these assumptions and I’m wrong, it’s not your problem, it’s my problem. Your problem is to execute assuming that I am right. I may come to you later and say that I was wrong and we now have to assume A, B, and C are going to happen. But for now, assume that I am right.” We can’t stress enough how important this is—or how liberating it is for people to hear, as the following example shows.

We were working with a project team in the insurance industry, a team on the brink of launching its major new product nationwide. To appreciate this story, it is important to know that in the United States, insurance is regulated on a state-by-state basis. In essence, before you can know where a product is to be sold, you have to know how many state regulatory authorities have approved the product for issue in their state. The project manager was interrogating his main operations person:

“Are you ready?” he asked.
“I think so,” came the obviously reluctant reply.
“Well, is it yes or is it no?”
“If I can use Therese for some of the training, and we don’t run into too many computer glitches, and the West Side team manages to make the right transfers over ...” and on and on, burbled the operations manager.

It became pretty clear to both of us what was going on—the operations manager simply couldn’t answer the question! He was being asked to account not only for whether his team was operationally ready but also to anticipate the level of challenge he would be up against, given varying levels of regulatory approval.

We intervened at this point and got the project manager off in a corner. His job, we argued, was to first tell the operations guy how many states he had to be ready for. Without this information, the operations guy was simply frozen by the inability to know whether he really would be ready, we said. The project manager, obviously
intrigued, said that he would try it. We went back to the group, and
the project manager asked, “So, if we assume approval in fifteen states
on day one, do you think you are ready?”

The change in atmosphere and confidence was palpable. “Oh,
absolutely, fifteen won’t be a problem at all—in fact I have backup
capacity lined up in case it’s a few more than that!” came the forceful,
confident, liberated reply. Reflecting on this afterward, we concluded
that the source of all the hesitancy had been a basic uncertainty about
the level of the challenge. Until this uncertainty was resolved by a
more senior executive, the question simply couldn’t be answered with
confidence by someone at an operating level. This is what senior
managers are often there for—to help people box and bound other-
wise paralyzing uncertainties.

This does leave you with the problem of coping with your own
uncertainty, but, after all, the business of thinking entrepreneurially
is all about coping with uncertain situations. Remember that you
don’t have to be 100 percent right all the time, just right enough
often enough. Furthermore, a competent, confident, and therefore
resilient team can usually cope with the differences between the
frame you set and the real-world shots as they are called. What is cru-
ernal is to recognize when you must absorb the uncertainty so that oth-
ers can get on with implementation; this uncertainty can often only
be credibly absorbed at a senior level—by you, the one who can most
afford to be wrong.

Often managers fail to take the uncertainty load off their team’s
back because the need to do it is not obvious to them. A real con-
tradiction of modern management is the manager’s duty to be clear
about expectations without resorting to the old style of telling people
exactly what to do.

At times, your ability to absorb uncertainty will immensely
accelerate the business development process. Specifically, make sure
that your people have been given guidelines for setting their own pri-
orities—what is really important and what can wait. Make sure peo-
ple know what you are expecting them to prepare for—how soon,
how big, with what level of aggressiveness. The better you can pre-
pare them by giving them best-guess directions until more informa-
tion becomes available, the more effective they will be.
Defining Gravity  Another leadership task is to define the “laws of gravity”—that is, what must be accepted and what cannot be accepted. The term gravity is used to represent the things people accept as limiting conditions. Sure, there is gravity on the earth, but that doesn’t mean we have to let it dominate our lives. If we can be freed from the psychological cage of believing that gravity makes flying impossible, we can use our creativity to invent an airplane. This is what successful entrepreneurs do—they see opportunities where others see barriers and limits.

Take John MacCormack of Visible Changes. He twice put his company on Inc. magazine’s list of the fastest-growing businesses in the United States. What is it, you might ask, a high-tech start-up? A breakthrough manufacturer? Not at all. It’s a chain of southwestern hairdressing salons—a tough, low-margin business if ever there was one. And it gets even worse in a recession, because people get their hair cut less frequently. So the last time Texas went into a recession, McCormack could have accepted it as an explanation for poor performance. Instead, he challenged his managers to think creatively about the coming recession: “Are we going to participate in this recession, or are we going to beat it?” Recognizing that opting out of recessionary times was not something they should succumb to without a struggle helped people come to grips with what they could do, even in the face of limiting conditions.

The job was defined as making sure those customers who did get haircuts came to his salons, Visible Changes. The managers proactively contacted customers and offered promotions. They used their knowledge of customers to target special events in the customers’ lives, such as anniversaries and holidays. They went out of their way to make sure that their salon stayed uppermost in customers’ minds. The result? Customers averaged one visit every five weeks (as opposed to a pre-recession four weeks), but they didn’t wait six weeks, and they didn’t switch salons. McCormack challenged people to the limits of their potential without pushing them beyond it.

One of your responsibilities is to define gravity for those who will implement the business proposition. You need to review the barriers listed in your opportunity register and define for your team what limits must be accepted as given (their gravity) and what barriers will
not be tolerated as constraints (Go build an airplane!) as they move forward with implementation. This calls for judgment that reflects your understanding of the limits of your people’s capabilities and how far they can be pushed to expand those limits without falling apart.

**Path Clearing** Yet another challenge of entrepreneurial leadership involves clearing obstacles that arise as a result of internal competition for resources. This can be a problem especially when the entrepreneurial business is beginning to undergo significant growth. A growing business will often find itself for the first time pitted squarely against other (often established) businesses in the firm in the fierce internal competition for funds and staff. The competition thus earns your venture the displeasure of the line managers of other divisions and sometimes even those in your own division, who may have an urgent need for those resources they are no longer getting. If these managers are not checked, they may deploy all their organizational power and historical track record to deny the new venture the resources it desperately needs, or they may delay their allocation long enough to give competitors time to come in and take up the slack.

There may be a real need for you to intervene and, if necessary, prompt the reworking of the entire budget for your organization. Stuffing plans may need to be revamped to attend to the rapidly escalating needs of the entrepreneurial business.

The necessity of this type of intervention increases as the resource requirements of the preexisting divisions increase. Consider the case of a venture in a division of an electronics firm that we studied. The venture had developed a technology with long-run revenue potential in the billions of dollars. Unfortunately, just as a critical mass of major applications for the technology were becoming clear, demand for the company’s core business also began to take off. The division heads of the core businesses desperately needed huge amounts of funds to expand capacity. Since the firm’s top managers came from the core business, understood the core business, and could bank on the revenues from investment in that business, there was enormous pressure to withhold resources from the entrepreneurial business. In this case, growth was slowed, the senior managers of the
original venture management team quit in frustration, and the firm probably lost about a year in bringing the new application to market. Fortunately, competitors were even farther behind and the business has since become a considerable success, but the story might just as easily have had an unhappy ending.

**Underwriting**  Entrepreneurial ventures often labor under a significant problem—skeptical potential customers and suppliers. Their attitude is likely to be “Why should we support a venture that’s still not viable and might get shut down?” Your role is to find a way to allay these concerns by getting someone with sufficient credibility to underwrite the business, promising to stick with the venture even if significant initial losses are incurred. If you do not have that credibility, you may have to seek it from your manager, or even your manager’s manager. Without it, you don’t have a business.

Consider the firm we talked about in chapter 11. It was pursuing a database venture that involved capturing specific information about the purchasing behavior of consumers buying packaged goods and then selling the information to the manufacturers of those goods and to their retailers. The difficulty was that the key customers for this information were likely to be the major packaged-goods players—firms such as Procter & Gamble, Unilever, General Foods, General Mills, and so on. Unless they could be persuaded that the database added value, the venture would never achieve its optimistic revenue projections.

These key customers were skeptical. Although the concept was intriguing, given the vast amounts they expend on direct-mail advertising and promotion, our client had little credibility. The division launching the business was part of a financial services company with no foothold in retail merchandising or database marketing. The large manufacturers were thus worried about making major investments in the new technology and its utilization, including training and systems development, only to find that the parent firm of the new venture firm would fail to aggressively support the business. To assuage their fears, it would have been helpful for the very senior managers of the parent firm to personally assure these customers of their commitment to the venture. Unfortunately, that never happened.
So the customers never signed on to support the business. What eventually transpired was precisely what they had anticipated: The firm terminated the entrepreneurial business after it had incurred losses for several years. The reaction of the customers was a predictable “I told you so!” These customers had never believed that the host would persist in the first place, and now their skepticism had been justified. Two years later the same concept was very successfully launched by a competitor, and the entire category of services involving identification of individual purchasing patterns is now a high-growth market.

Deciding whether and when to underwrite an uncertain entrepreneurial business is by no means easy. You simply cannot bet the ranch on every venture that comes along, and you must exercise careful judgment to decide when to step in and sever a vicious circle. Although you need to be confident that the business will succeed before betting the ranch, the business cannot move forward until the ranch is bet.

**Keeping a Finger on the Pulse**

As the venture moves toward implementation and others begin to take charge, your role as an entrepreneurial leader largely involves constructive monitoring and control of the developing opportunity. We’ve listed some issues that are likely to continue to require your attention as the venture unfolds.

**CONSTANTLY CHECK FOR MARKET ACCEPTANCE.** The lowest-cost route to successful implementation is to probe constantly for evidence that the market you have envisioned accepts the business proposition of the venture. As we stressed in chapter 9 when discussing entry strategies, there is no better evidence that the business proposition is valid than securing orders ahead of investments in the venture. Understandably, this may be very difficult to pull off, but again as we said earlier, if you can’t get orders, can you get letters of intent? If you can’t get letters of intent, can you get letters expressing interest? If you can’t even get someone to write a letter expressing interest, then the basic business proposition should be viewed with alarm.

**PUSH TO SECURE DEALS WITH KEY STAKEHOLDERS.** The success of virtually every venture is dependent on being able to cut about three to five
critical deals with key stakeholders whose initial commitment is crucial to the venture. Push those running the venture to identify the deals that will make or break the venture, and then make sure they are making progress on these deals well ahead of major investment commitments. Typically, such deals may be agreements with key suppliers, distributors, funding sources, employees, or customers. If their support cannot be secured, the entire project is at risk. Furthermore, if you can’t get the right deal, why risk the fate of your venture team? Little can be gained, for instance, by making an acquisition or by consummating an exclusive purchase license if you vastly overpay for it. Other ventures will surface—the people on your team need to know that they can walk away from this project, if necessary, and that you will support them in their decision to do so.

**CHALLENGE THE TEAM NOT TO SPEND MONEY UNTIL IT KNOWS IT CAN MAKE MONEY.** You should promote the principle that entrepreneurial ventures are not entitled to assets and fixed-cost burdens until they have revenue streams to justify them. Push team members hard to get initial investment down as close to zero as possible. Minimize initial assets by buying them second-hand rather than new or, better yet, by leasing rather than buying, or, still better, by subcontracting manufacture rather than leasing. Best of all is “tin-cupping” existing manufacturing rather than subcontracting.

**PUSH YOUR TEAM HARD TO INITIATE REVENUE FLOWS AHEAD OF COST FLOWS.** You do this by securing advance payments and by postponing cash outflows, such as remuneration. Drive them to avoid incurring fixed costs—incur cost on a variable-per-usage basis rather than committing to a fixed cost. All these tactics reduce the burden on the project to generate return on investment.

**PUSH THE TEAM TO BE REALISTIC IN IDENTIFYING SKILL DEFICIENCIES.** Particularly when the skills that may be needed to make the project successful are new to you or, worse, new to the world, there is a temptation to severely underestimate the difficulty you will have in securing them and/or developing and deploying them. Lack of these skills virtually guarantees that the initial quality delivered to the marketplace will be inadequate, with the result that the first few brave souls who
order from you will be disappointed. You cannot allow this to happen. Make sure that the right skills are developed and reliably in use before inflicting your offering on an unsuspecting market.

**ORCHESTRATE MARKET ENTRY.** Do not allow the team to rush a half-baked product to market or to tinker endlessly to “perfect” a product that has never been tested in the market. Ensure that you have identified lead users who are recognized and rewarded for taking on the role of a beta site.

**KEEP THE FOCUS ON LEARNING.** To repeat, ensure that team members practice the discipline of discovery-driven planning. Document assumptions and test them before making major investments. Systematically redirect your project as you convert assumptions into knowledge. In particular, learn from surprises as well as mistakes. A surprise is what occurs when you do better than expected. Even so, you did something wrong! Often, the result won’t be analyzed, because it was positive. But because surprises stem from incorrect assumptions, you need to check out those assumptions to make sure that you continue to be surprised.

**MAKE SURE THE TEAM CONTINUES TO MONITOR CRITICAL SENSITIVITIES.** Occasionally, small changes in key assumptions or variables presage large dislocations in performance. There is also a natural propensity to spend time checking what is easy to check, not what is important to check. Make sure that someone is watching for early warning signals that high-impact variables may be heading for a cliff.

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**MANAGING FAILURE**

The trouble with any venture is that it runs a real risk of failure for all the reasons we just enumerated. It is all very well for managers to exhort people to innovate, but when failure occurs, your entire business stops to see what you are going to do. This pause is testing time, and your reaction sets the standard for all future commitment to entrepreneurial development on the part of your people.

We have found that entrepreneurial leaders employ three important practices when confronted with a failure: constructive postmortems, recouping, and spotting entrapment.
Constructive Postmortems

No one should be rewarded for making bad decisions, and so entrepreneurial leaders of successful programs do not forgive foolish failure. On the other hand, projects in which the team has consistently made good decisions but that failed as a result of circumstances beyond their control deserve recognition and reward. Entrepreneurial leaders who are successful at promoting deep commitment to continuous entrepreneurial development typically conduct constructive postmortems to distinguish projects that have failed because of bad luck from those that failed because of bad decision making. If you have all along been tracking assumptions and deviations from assumptions through a discovery-driven plan, the distinction between bad management and bad luck is an easy one. Postmortems also lead to the second practice, recouping.

Recouping

Often there is much to be learned and deployed elsewhere, even from a business launch that failed. For instance, in our study of the financial service company that ventured into capturing consumer data, the firm had developed very powerful data compression technology that could have been used elsewhere in the firm, but this opportunity was lost in the recriminations that followed the decision to shut down the project. No attention was paid to the prospect of recouping all the positive benefits of the failed business. Furthermore, recouping helps convey to those on the venture team—valuable talent whom the firm could ill afford to have crippled by a feeling of failure—that it was the venture that failed, not them.

Spotting Entrapment

Often it is necessary for you to detect that the business development team is entrapped in a welter of optimism that precludes them from recognizing that the business is doomed. This occurs for many reasons—it is difficult not to be falsely optimistic about exciting projects or to fear the consequences of failing so much as to deny imminent failure. However, entrapment may also occur because the business development manager cannot bear to recognize that all those team members who left solid career tracks to join the venture have done so in vain, and so the manager plows on in the hope that things will turn
around. In other cases, the pressure to resist recognizing failure comes from outside forces. We observed that powerful distributors were pressuring a development manager to carry on with a project that they wanted continued despite the poor results for the firm. Thus it is important to be alert to the signs of entrapment. If a venture seems to be trapped in any of these signs of poor business logic, you may personally have to shut down the project.

**Summary of Key Questions**

We conclude with some key questions for you to ask yourself to make sure you’re doing everything you can to promote entrepreneurial initiative in your organization.

Am I paying consistent, predictable, and disproportionate attention to entrepreneurial thinking among team members?

Are entrepreneurial initiatives consistently high on my agenda?

Am I visibly allocating disproportionate resources to entrepreneurial initiatives?

Am I consciously allocating disproportionate talent to them?

Is this widely recognized throughout the organization? How would I know?

Do I have enough new business initiatives in my portfolio of opportunities to support my strategy, distributed in various stages of development?

Am I consciously orchestrating an entrepreneurial development process?

Have I articulated a clear and logically compelling ballpark?

Has this been captured in an engaging, memorable image?
Am I mandating options thinking and the discipline of parsimony on proposals?

Am I imposing the appropriate planning, monitoring, and control of initiatives we are pursuing?

Am I preparing to make appropriate interventions in initiatives already under way?

Am I alert to and prepared for occasions on which my intervention, or that of my boss, may be needed?

Have initiatives been framed adequately?

For each specific initiative, especially new business ventures, might we need internal path clearing?

How well prepared am I to clear the path, if needed? How well prepared is my boss to do so?

For each specific initiative, might we need external underwriting?

How well prepared am I to underwrite or to secure support elsewhere in the firm, if needed?

For each specific initiative, have I defined gravity—specifying the possible parameters of what must be accomplished?

For each specific initiative, will I need to absorb uncertainty?

Do I have a system of constructive postmortems in place?

Do I give deliberate attention to recouping from initiatives that are unsuccessful?

Am I on the alert for entrapment?