SEVEN KEYS

TO SHAPING THE ENTREPRENEURIAL ORGANIZATION

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BACKGROUND

The Kauffman Center for Entrepreneurial Leadership is one of a very few national not-for-profit organizations with significant resources devoted to accelerating entrepreneurship (and job growth) in America. The Center has become a trusted resource, promoting opportunities for entrepreneurs, educators and youth nationwide. The Center is a legacy of the late Ewing Marion Kauffman, and is funded by the Foundation which bears his name.

The Kauffman Center is located in Kansas City, Missouri, the birthplace of Marion Laboratories, Inc. The company was founded by Mr. Kauffman in 1950 in the basement of his home. At the time of its merger in 1989 with the Merrell Dow arm of the Dow Chemical Co., Marion had sales of $1 billion and employment of 3,400. The firm now operates as a major part of Hoechst Marion Roussel, a worldwide healthcare firm with revenues exceeding $9 billion and employing more than 40,000 people.

Michie P. Slaughter was involved in the original conceptual design of the Kauffman Center for Entrepreneurial Leadership, was named its first president in February 1992 and served in that role until 1998. Slaughter continues to serve as chairman of the Kauffman Center. During his 17-year career as vice president of human resources and member of the board of directors of Marion Laboratories, Slaughter was a key influence in helping the founder and chairman, Ewing M. Kauffman, institutionalize his basic business philosophies: that we should "treat others as we want to be treated," and that "those who produce should share." He was one of the primary architects of the leadership, organization and management development strategies employed by Marion during its most dramatic growth period.

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Many businesses are similar with respect to products, services, and markets. Yet some seem to grow rapidly, passing through higher and higher levels of complexity in the firm while others do not achieve significant growth. For the growth-oriented firms, barriers to transitions that the firm must overcome in the pursuit of growth appear to be only minor disturbances. When this occurs, it is not the result of action of the "lone ranger" entrepreneur, but the action of a purpose-driven team and organization that is committed to the goals and directions established for the firm. When this purpose-driven attitude or entrepreneurial spirit has been established, the transition from the entrepreneurial leader to entrepreneurial organization has been achieved. The entrepreneurial organization may look like any other firm. Yet it thrives on an attitude toward growth that exists only when a team spirit is fostered among the associates and with the suppliers and customers of the firm.

Shaping the entrepreneurial organization is not a difficult process when growth, strongly supported by the founders and the top management team, is well planned and constantly reinforced. When these conditions exist, a seven-step approach can be used to implement the process and achieve the desired results.

These seven steps are: 1) hire self-motivated people; 2) help others be successful; 3) create clarity in the organization–clarification of purpose, direction, structure, and measurement; 4) determine and communicate your own values and philosophies; 5) provide appropriate reward systems; 6) create an experimental learning attitude; and 7) celebrate your victories.

The key to the success of most growing organizations is that the entrepreneur has put together a team of highly qualified people who are committed to the goals and objectives of the firm. This does not minimize the importance of identifying opportunities in the marketplace, and developing products or services that satisfy the opportunity or need while producing a profit. Nor does it mean that the judicious use of resources to achieve growth is not a necessary criterion for success. What it does mean is that the successful entrepreneur has expanded his or her capabilities by delegating responsibilities for various functions to a team of motivated people who share the goals and objectives of the entrepreneur leading the firm.

The successful entrepreneurs we read about in the national press are not "Lone Rangers" who have accomplished their greatness through individual achievement. Rather, they are skilled, motivated individuals with a dream who have been able to gather around them similarly skilled people who share their dreams and make them come true! The ability to build an entrepreneurial organization is, therefore, essential to entrepreneurial success.

Fortunately, many successful entrepreneurs are willing to share the secrets of building effective, entrepreneurial organizations. I have had the good fortune to be associated with a number of these "master" entrepreneurs and have learned many of their secrets. Most notable among this list of masters were two who shared as mentors and teachers to me while, together, we built several successful entrepreneurial teams.

In 1950, Ewing Marion Kauffman founded Marion Laboratories, Inc. in the basement of his home in Kansas City. By the time of his death in 1993, "Mr. K," as he was known throughout the Midwest, had built Marion into a company of 3,400 dedicated people with $1 Billion in sales and valued at more than $6 billion on the New York Stock Exchange. When the company merged with the Merrell Dow arm of Dow Chemical in 1989, more than 300 of his "associates" became millionaires as a result of his unique philosophy of sharing with those who produced the dramatic growth and profitability of the company.

Gerald W. Holder retired as senior vice president and chief administrative officer of Marion Laboratories in 1985. He had joined Mr. K in 1973 to help him build an executive team capable of doing $100 million in business. At that time, the company had sales of just over $50 million. Prior to 1973, Mr. Holder had enjoyed a successful career building growth-creating organizations for pharmaceutical and chemical firms such as Abbott and Union Carbide. At the time of his death in 1992, Mr. Holder was still teaching entrepreneurs how to build the capacity for growth into their companies.

Much of what I have learned about building entrepreneurial organizations came at the elbows of these two great men or through exposure to other teachers they enabled me to meet. Our goal now at the Kauffman Center for Entrepreneurial Leadership is to find effective ways to teach the entrepreneurial skills learned from these and other successful entrepreneurs to emerging entrepreneurs so that they might continue the legacy of economic vitality that is so essential to the growth of our nation. This chapter is an abbreviated version of the seven keys to building entrepreneurial organizations. While you may recognize some of these keys as practical applications of organization research you have read about in the past, others will strike you as an "obvious" practical application of what we know about human nature to building entrepreneurial teams.

Several books have been written on this topic, some of which are included in the bibliography. But there is no substitute for experience and the information we learn from our mentors.

These seven keys are by no means the only things you need to do in building entrepreneurial success, but they will give you a head start in understanding the ingredients necessary to build an effective entrepreneurial team.

HIRE SELF-MOTIVATED PEOPLE

Anyone who is a sports fan understands that the key to winning is having a talented, motivated team. But in business, we too often settle for talent that’s "just good enough," talent that we feel we can afford. When we do that, we compromise what our company can become. Entrepreneurs need to hire the very best people they can find–people who bring their motivation with them. In addition to people with great technical skill, you need people who will share your dream with you and work with you to make it become reality. This means you need people with inner drive who give off energy of their own. Avoid people who constantly need to be motivated by you or others.

People who can motivate others have an ability to draw on those who are already strongly motivated from within. They will work hard to find ways to tap into that motivation and avoid actions that turn it off. When trying to build a solid business, most of us don’t have the time or skills to create motivation in others where it doesn’t already exist, so we need to structure our selection process to find those who are self-motivated. The most effective way to do this is to learn what has been the source of a candidate’s motivation in the past. Since past behavior is still the most reliable predictor of future behavior, we can learn about this directly from the candidate by asking "why" he or she did certain things in their lives. You often have to probe to understand real reasons for an action, but by doing so you will gain insight into how they think and what things guided them in making key decisions in their lives. In each case, you will be looking for signs that tell you whether these people look to others for these elements. As entrepreneurs, we need people who can guide themselves.

In addition to asking the candidate why he or she took certain actions, you can learn more about how the person actually behaves by asking for real life examples of how they handled certain situations in the past. For example, ask for a specific example of how the candidate responded to a major setback ("What was the setback and how did you deal with it?") rather than posing a hypothetical question such as "How would you deal with a setback?" This requires the candidate to speak from experience and gives you some past behavior to evaluate. You can then use the example as a window into the person's motivation by asking the follow-up question, "Why did you choose that course of action?"

Remember, each of us puts our best foot forward in interview situations. To get the most information from an interview, we must probe for details and examples. You can then confirm these examples and the candidate's version of them when you call the references the candidate has given you. Having real examples to discuss with the reference will get you past the tendency to obtain only dates of employment and job titles, limited information which has become the norm in today's litigious society.

Ewing Kauffman offered his own personal twist to the talent equation with the advice to entrepreneurs to "Hire people who are smarter than you! In doing so, you prevent limiting the organization to the level of your own ability...and you grow the capabilities of your company." Kauffman said, "Someone has to be the smartest guy in the room. Never invest in that man! Put your bets on those who hire the best and smartest people they can find." He further explained, "If you hire people you consider smarter than you, you are more likely to listen to their thoughts and ideas, and this is the best way to expand on your own capabilities and build the strength of your company."

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HELP EACH OTHER BE SUCCESSFUL

To build Marion Laboratories, Ewing Kauffman worked hard to create ways his associates could realize their own dreams by helping him realize the dreams he had for the company. His "treat others as you would be treated" philosophy and belief that "those who produce should share in the profits" are excellent examples of establishing the climate for such a partnership mentality. MacGregor (1985) referred to this as an "integration of individual and organizational goals." In the South, it is often referred to as "the way folks are." An old Southern saw says, "Given the opportunity, people will tend to act in their own best interest... Not given the opportunity, people will still tend to act in their own best interest." Clearly one good way to build a successful organization is to find ways to have your own interests be in concert with those you employ.

If you want a "we're all in this together" mentality, you must create one! To do so, you must find out the goals, dreams, and aspirations of your people. This means taking the time to ask and listen. This becomes more difficult as the organization grows in size, but if you establish the concept early in the process, supervisors and managers will sustain it as the company grows. Indeed, it is essential that you encourage the management team to follow this practice. Only by requiring them to do so can you demonstrate your own commitment to the principle. People often watch how we treat others (and how we allow them to treat others) as true signs of how we will treat them!

This process will help you learn what is important to those who will determine your success. For some, the motivator will be money; for others, it will be recognition, achievement, growth, freedom, and autonomy, or even time to be with their children. The important thing to remember is that motivations vary greatly from person to person. The key is to find out what motivates the person you want to motivate.

Responding to the interests and dreams of your people requires that you treat them as distinct and separate individuals. This flies in the face of the cliché that "the only way to be fair is to treat everyone the same." We have all experienced examples of the illogical behavior required when an organization "treats everybody the same." Responding to individual needs will make it possible to create conditions in which individuals' dreams will mesh with yours.

3

CREATE CLARITY IN THE ORGANIZATION – CLARITY OF PURPOSE, DIRECTION, STRUCTURE, AND MEASUREMENT

In his analysis of the successful growth of Marion Laboratories, Gerald W. Holder attributed much of the organization's strength to an entrepreneurial leadership team that focused significant energy on creating clarity throughout the work force. This enabled people to operate with a commonality of understanding and the assurance that everyone was working together. Holder believed strongly that creating clarity in the organization was the most important role for leadership. It required that leaders first establish clarity for themselves, then implement a major communications and reinforcement effort to create it for the organization. He acknowledged that complete clarity is never attained in a growing organization; however, the changes that come with growth only increase the importance of clear thinking and clear communications. Following are the four clarities Holder identified as critical to the success of Marion Laboratories.

Clarity of Purpose

It is important that people know why the organization exists. People need a reason to give you their enthusiastic support. Do not expect anyone but your family (and often not even them) to get excited about "making you rich." Most people will not mind if you make lots of money if they share in the gain with you. But most still need a purpose that is grander than money. Becoming the first or becoming the best or even doing what no one else has ever done in a given business or industry are challenges which excite people.

Helping people solve problems or lead better, safer, healthier, and more productive lives are the kinds of things that call upon the best of human values and stir people to committed action. Since no product or service will survive unless it meets a true need in the marketplace, opportunity to meet that need better, more quickly, or less expensively often provides the real purpose for an organization.

The people with entrepreneurial spirit who you want in your company will enjoy the opportunity to build and create a business where none has existed before. Give them the opportunity to share in the excitement of this building process by communicating why you are willing to make your own personal sacrifice to make it happen. If after deep personal reflection your only reason is to "get rich," reconsider the whole thing. Your customers, employees, suppliers, and investors will want you to have a purpose beyond personal wealth before they will share the risk with you. You must realize that each of them must share your risk in order for you to succeed.

Clarity of Direction

Without careful thought and communication, people often wonder "Where are we headed with this business?" or "What kinds of skills and talent do we need to bring into the company?" This does not mean that the direction is set in concrete and is unchangeable; rather, it means that the current direction often results in the diffusion of scarce resources in areas of minimal or even counterproductive return.

Clarity of Structure

The next key challenge in a growing business is the coordination of "Who's going to do what?" and "What part of the job is mine and what is yours?" and "Whose responsibility is it?" When you are the sole employee, this is not a problem. But when the company begins to grow beyond what you can do alone, it becomes a consuming task of leadership. I am not referring to the dreaded organizational chart here, but rather to the process of thinking through and communicating to your team the roles, responsibilities, and accountabilities of each so they can devote their efforts fully and confidently to doing their part.

We all watch with admiration when a shortstop and second baseman turn a double play, when an alley-oop pass results in a slam dunk basket, or when a trap block springs a runner free for a touchdown. The same level of knowledge, forethought, planning, and practice are required in the entrepreneurial firm in creating, recognizing, and capitalizing on opportunities. In each sports case cited above, the players must know and have confidence in the roles and responsibilities of their teammates, in addition to their own roles and responsibilities. This knowledge and confidence allows them to concentrate on their own job and give it their full energy while recognizing the interdependence of the players. No less is necessary for the growing firm. Deciding who will do what is sometimes difficult. But *not* deciding will always create difficulty. The entrepreneur must stay alert to the evolutionary changes in the organization that can bring about confusion related to who is to do what and work to keep it clear.

Clarity of Measurement

Knowing how to measure the results in a business is as essential as knowing how to score in an athletic event. Too often, though, we assume that everyone understands and fail to make it clear. Sometimes even the entrepreneur misunderstands how the customer or the investor will measure performance and is surprised when one or both withdraw their support. As businesses become increasingly complex, it becomes more difficult to determine what the key measures of success are. In many cases, there is a significant time lag between initial action and the end result. Careful thought to interim milestones in the development of the business is essential to making changes in direction, allocation of resources, rewarding people, and a variety of critical decisions the entrepreneur must make. Americans are great "measurers." We equate changes in measurements with achievement. We have more statistics on every aspect of both individual and team performance in sports such as baseball and basketball than the inventors of the games ever imagined, but we often overlook the importance of similar measurements in our business. Since people often pay more attention to the things they know you are going to measure, it is important that you make sure you are measuring the things that you have decided are important to you. Your people should have access to the information that will allow them to measure these things, too. If these things are sensitive financial information and you are reluctant to share it, consider how long you would exert your energy in a game, such as bowling, where you couldn't keep score and didn't know how well you were doing or if someone else was keeping score and wouldn't tell you how you were doing. If you still have that reluctance, please read Jack Stack's book, *The Great Game of Business*, which describes how he used open-book management to turn a dying business into an exciting entrepreneurial venture.

4

DETERMINE AND COMMUNICATE YOUR OWN VALUES AND PHILOSOPHIES

The importance of values and philosophy has received a great deal of attention during the last few years. Much of that attention, however, has been focused on the quality of the values and their goodness, or lack thereof. While very important, the quality of the values is not enough. Your values must be clearly communicated and consistent with your actions to have a positive impact on your business. They must be reinforced by both your words and your actions. Ewing Kauffman's philosophies of "treat others as you would be treated" and "those who produce should share in the results" would have little impact on his business had he not constantly expressed them in both word and deed.

Values and philosophies are also important in providing a basis for making decisions and a basis for teaching people in the organization how to make decisions. Clearly stated, consistent values provide a framework within which people can make the myriad of major and minor decisions required daily in their jobs. Large bureaucratic organizations try to communicate direction through often complicated and voluminous policies and procedures, sometimes presented in multiple volumes of three-ring binders. Creating such manuals requires an impossible ability to know in advance all circumstances in any situation, or the result is illogical action "just because that's our policy!"

A clearly communicated set of values allows people at various levels in an organization to know what is important to the leadership and how those leaders would go about making a decision. Understanding the stated values helps people make decisions appropriate to the organization and its leaders. The internalization of values can help expand capacity, because that understanding clears the way for delegating more decisions to others. Since associates will often have more current and complete information than the leader, such delegation can reduce your risk while expanding your capacity. Every entrepreneur knows that reducing risk while expanding capacity is as elusive as cold fusion. Achieving clarity of values is a very effective way to do just that.

5

PROVIDE APPROPRIATE REWARD SYSTEMS

Most entrepreneurs think of "rewards" in the narrow context of compensation, namely bonus plans. There is great power, however, in a broader interpretation of the term. Effective reward systems include all forms of compensation, plus the wide variety of other things that are important to people in a work setting, such as job assignment, recognition, growth and learning, additional responsibility, authority, and autonomy. Mr. Kauffman was a firm believer in the simple, but powerful concept of appreciation as a reward and motivator. The effectiveness of any reward system is a function of two primary factors: whether or not the recipient perceives the reward as a positive, and whether the reward actually encourages the desired behavior. A third factor, judicious use, preserves the value of a reward and recognizes that any reward given indiscriminately loses value quickly.

Our assumption that something we would consider a reward would be viewed in the same way by an associate often results in the use of rewards that disappoint. Some rewards actually represent punishment to the recipient. For example, early in my career I once received an award for having done an outstanding job leading a fundraising campaign, a project which I found to be an unpleasant experience. The reward was being named to head the campaign again the following year. It is no surprise that the best way to find out what an associate values as reward is to ASK!

In order for the reward to be effective, it must encourage the desired behavior, and the desired behavior must be consistent with the strategy you have designed for your business. I have often seen sales bonuses used as rewards for opening new accounts, at the same time a key element in the marketing strategy is maintaining and servicing current accounts. In one case, the sales bonus plan actually took off points for time spent prospecting new accounts when "growing the customer base" was an essential part of the company strategy. The key here, of course, is that there is no right or wrong. Just be sure you are rewarding the behavior you really want. Ideally, people should be able to look at their pay and other rewards to learn the keys to good performance. It is the leader's responsibility to make sure the reward system is set up to support the business strategy.

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CREATE AN EXPERIMENTAL, LEARNING ATTITUDE

One of the biggest failings of our education system at every level is the process of teaching that there is always ONE right answer (and it's in the back of the book!). In most entrepreneurial settings, it is clear that, "No one has ever done what you have set out to do!" In almost every case, there will be several good ways–some will be better than others and some will be truly untried. The wise entrepreneur will take advantage of this dynamic and encourage associates to experiment, to look for and try different ways to do a task better, to come up with novel solutions. Acknowledging that you don't know all of the answers yourself can free up your team to help find solutions, and it presents an opportunity for them to contribute to your success. An enthusiastic, "we're making this up as we go along" attitude can do wonders to keep people looking for better ways to improve your product or service.

In these days of continuous improvement, it is critical to establish an experimental attitude to create the freedom to try new things. Such an attitude also sets the stage for change when an experiment doesn't work out. Rather than spending great energy trying to prove you are right, you can more easily say, "That's not working, let's try another way!" Or as Stevenson (1985) said, "The best entrepreneurs are the ones who 'fail quickly' and get on with learning how to do it better." Establishing an "experimental, learning attitude" can turn early failures into success.

CELEBRATE YOUR VICTORIES!

Good people want to be associated with a winner! We see sports fans in cities large and small engage in totally irrational behavior just to establish their affiliation with a winning team. Yet we often fail to give our associates an opportunity to celebrate their association with the victories we enjoy in our business. We see kids and adults give each other "high five's" when they get a hit, sink a putt, or make a touchdown. Why not when you make a big sale, secure that new account, or get that "nice job" from an important customer? Simple, spontaneous joy can be great motivational fuel for that next challenge.

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