INTRAPRENEURSHIP: A REQUISITE FOR SUCCESS

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ABSTRACT

Many feel that "intrapreneurship" is an interesting concept, but one which is fraught with peril. The need for innovation within organizations is a topic of much debate today as entrepreneurship has finally caught the world's attention. If entrepreneurial firms change the business paradigms and make us see products and services in a different manner, then why can't existing organizations with their tremendous wealth and resources foster innovation much more readily?

They can and do, but intrapreneurship is not a concept accepted by all large organizations. In an effort to become more efficient and cost effective, the search for the new and untried is anathema. Those who wish to go where no man has gone before must innovate or they will not reach their goal.

INTRODUCTION

How do you make your company more innovative? How do IDEO and Google do this? How can you make a large organization intrapreneurial? Can it even be done? Absolutely! Here are our suggestions for organizing your company in order to enhance creativity and innovation. Escape the traditional thinking typically found in corporate settings and transform your organization's ability to create break-through products and services!

WHAT IS INTRAPRENEURSHIP?

Intrapreneurship is a term coined by Burgelman in his 1983 dissertation (www.wikipedia August 24, 2007) and made prominent by Gifford Pinchot (1985) in his book, "Intrapreneuring: Why You Don't Have to Leave the Corporation to Become an Entrepreneur." Pinchot (1985) defines an intrapreneur as a "person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture, by operating within the organizational environment."

Many feel that "intrapreneurship" is an interesting concept, but one which is fraught with peril. The need for innovation within organizations is a topic of much debate today as entrepreneurship has finally caught the world's attention. If entrepreneurial firms change the business paradigms and make us see products and services in a different manner, then why can't existing organizations with their tremendous wealth and resources foster innovation much more readily? Why, indeed?

ORGANIZATIONAL CHARACTERISTICS THAT ENCOURAGE INTRAPRENEURSHIP

The key to establishing an "intrapreneur-friendly" organization is to create an innovative working environment.(Intrapreneurship, answers.com August 24, 2007) Sounds simple, doesn't it? Yet, in many large organizations the environment is already established. There are hierarchies, rules, procedures and the "right" way to do things to make the company more efficient. Careers can be destroyed by monetary losses and mistakes. Innovation is difficult under those conditions. Yet, as far back as 1988, Rule and Irwin theorized that one could create a culture of innovation through: 1) formation of intrapreneurial teams and task forces; 2) recruitment of new staff with new ideas: 3) application of strategic plans that focus on achieving innovation; and 4) establishment of internal research and development programs (Rule & Irwin, 1988).

Other keys to creating an intrapreneurial environment include the following: (Intrapreneurship, answers.com, August 24, 2007)

♦	Support from ownership and top management;
♦	Recognition that intrapreneurship is compatible to the existing culture;
♦	Communication channels that are open;
♦	Allocation of resources to the new innovations;
♦	Rewards for intrapreneurship; and,
♦	Follow through by the intrapreneurs in order to see the finished product.

While these are noble goals, do most organizations allow for these?

Three fundamental blocks to the above goals in organizations are the following: (Some thoughts..., 2007)

♦	Believing you already have "the right answer" (This prevents you from understanding possible alternative futures and choosing to create the one you most desire. The not invented here syndrome is alive and well in most large companies.);
♦	Taking life too seriously prevents one from exploring new ideas; and,
♦	Believing you are not creative prevents attempts which might result in failure (*Some thoughts*....2007).

Creativity and innovation must flourish if large companies are striving to create an environment conducive to intrapreneurship. Can that happen in your organization?

THE TEN COMMANDMENTS FOR INTRAPRENEURS

Pinchot (1985) in his seminal work on "Intrapreneuring" provides a list of rules for the intrapreneur striving in a large company to get his or her idea accepted. They are:

♦	Do any job needed to make your project work regardless of your job description;
♦	Share credit wisely;
♦	Remember, it is easier to ask for forgiveness than permission;
♦	Come to work each day willing to be fired;
♦	Ask for advice before asking for resources;
♦	Follow your intuition about people; build a team of the best;
♦	Build a quiet coalition for your idea; early publicity triggers the corporate immune system;

♦	Never bet on a race unless you are running in it;
♦	Be true to your goals, but realistic about ways to achieve them; and
♦	Honor your sponsors. (Pinchot, 1985)

This advice could be beneficial for anyone working in the corporate environment, but does it truly make an "intrapreneur friendly" workplace? We think not!

THE PRACTICE OF THE ART OF INTRAPRENEURSHIP

Kawasaki (2006) presented a more realistic set of commandments for the modern day "intrapreneur". This series of practices might well allow us to intrapreneur. These rules are:

♦	Kill the cash cows (Allow for the fostering of new products and services funded by the cash cows of yesterday);
♦	Reboot your brain. ...Generally, you should do everything the opposite way from the tried and true existing ways of large companies (Building consensus and focus groups do not allow for originality in innovation. Customers can only tell you what they like or dislike about existing products. They cannot tell you what they think of your new ideas.);
♦	Find a separate building (Remove the intrapreneur from the daily activities of the company. This allows freedom to try various trials without the constraints of the organization. There is a requirement for freedom of thought, space and experimentation.);
♦	Hire infected people....It's being infected with a love for what the team is doing.... It's not work experience or educational background (Intuitive, creative people can come up with amazing ideas which can be commercializable, but may not fit well into the traditional bureaucracy of a large organization with its rules and procedures);

♦	Put the company first....as long as you are an employee, you have to do what's right for the company;
♦	Stay under the radar...you need to stay invisible as long as practicable...Make your bosses think it was their idea;
♦	Collect and share data (Be prepared for questions and be able to support your position for the nay sayers.); and,
♦	Dismantle when done....product teams will move into the mainstream of the company.
	(The art of ..., 2007) (Parentheses are added by the authors)

Again, the prescription may produce results, but this list, like Pinchot's is more about working around the system, rather than changing it. Note the command to "stay under the radar," which is similar to Pinchot's "build a quiet coalition." Why can't we change the organization?

INNOVATION IN LARGE ENTERPRISES

When one thinks of large companies and the access they have to research and development capital, one might conclude that most innovation comes from those companies. But time and again, we see large, successful companies engaging in *elaborative* innovation. They change the target market, add flavor, change the trade dressage, or change the size of their existing products rather than create new, original products. There is a statement which is expressed by Joel Barker (1993) and also by Andy Grove, former CEO of Intel which goes, *"Success sows the seeds of its own destruction"* (Grove, 1999). The adage refers to the tendency of the people in a successful enterprise to assume that they are successful because they have it right; they understand the market and they know what they are doing. Such an attitude can cause people to sit back and enjoy their success; to become mentally lazy; to assume that the future will be a reflection of the past. When they do, they tend to be passed by entrepreneurs.

Grove (1999) was willing as CEO of Intel to "cannibalize his own products" to stay ahead of the game. His strategy sacrificed returns by introducing the next generation of chip to the public before the earnings of the last had been fully realized. He felt that in order for Intel to retain its 80% market share, it had to continue as the technology leader. As soon as he slowed development, another company would become the de facto standard and history has proven that he was right (Grove, 1999). Grove's successors either felt that the cost to stockholders of such a strategy was too great, or fell victim to their own success. Today, under new leadership, Intel has lost its market domination and much of its market share.

It is true that the majority of research and development expenditures do occur in large enterprises, but few of the really ground breaking innovations result from those efforts (Baumol, 2005). A report prepared by the U.S. Small Business Administration (1995) declared that the most important innovations of the Twentieth Century were developed by entrepreneurial enterprises (*The state of*..., 1994).

Why is it that underfunded, small businesses without marketing clout, without manufacturing resources, without personnel, without all of the accouterments of business, produce virtually all of the real breakthroughs? The answers relate to the people. So frequently we forget that "enterprise," "organization," "business," even "venture," are words that we have coined to describe the activities of individuals. No "business" ever decided to take any action. Every action, every decision, every effect of every organization is the result of the acts of one or more people. It is the motivation of these human decision makers that we must examine.

DRIVING FACTORS IN LARGE ENTERPRISES

Decisions in a large enterprise are made by managers. Managers are very different from entrepreneurs. Managers are paid salaries. There may be the opportunity for bonuses or profit sharing, but for the overwhelming majority of managers, the potential for serious wealth is not present as a motivating factor. As a result, managers are driven by numbers. As they make decisions, they must address the question, *"What actions will create the best internal rate of return for the company and create the best performance numbers for my unit?"*

If you remember how the internal rate of return (IRR) is calculated (or if you don't!), the returns must be adjusted for the risk. The greater the level of uncertainty about the potential for market acceptance of an innovation, the greater the mathematical risk attached to forecasted returns for that innovation. The greater the risk, the more forecasted returns are discounted in the formula. The result is that a minor innovation with limited forecasted returns and very low risk will fare better under traditional IRR analysis than a major innovation with forecasted high returns and high risk. In other words, it is much safer to put peanut butter in a new jar than it is to launch a new sandwich spread as a companion for jam.

It is easy to understand the bias that is incorporated into the IRR formulae. Management scholars have never read Alfred Lord Tennyson!(www.phrases, 2007) In the realm of traditional business, it is *not* better to have loved and lost than never to have loved! It is far better not to take the chance. This bias is perpetuated by the evaluation system for management. Managers are literally driven by numbers because their performance is evaluated with them. If you want to progress in the company, then you need to make your numbers. When you meet with your superior each year, you come away with an understanding of the returns you should produce in your profit center, or the percentage of spending reduction you should achieve in your cost center. To progress in the company, you need to meet those numbers. If you exceed the numbers, that's great, but if you double or triple the numbers, there is rarely any serious difference in your career outcome. In other words, no one is going to double your salary because you doubled the expected returns for your department or division. In fact, they are far more likely to believe that the original expectations were too conservative and to saddle you with higher expected returns next year. Your reward for outstanding performance is likely to be an expectation for continued outstanding performance in the future coupled with a penalty for failure to achieve those results.

To complicate this picture even more, accounting rules mandate that expenditures for research and development (R&D) be expensed when incurred. We know that there is a lag time between the development of an innovation and any returns it might create and this lag time can be several years. Nevertheless, expenditures made in the search for innovations this year, are deducted this year. That means that the more you spend on research and development, the lower your returns will be, *whether your R&D is successful or not!*

The accounting issue is a significant one because it drives the calculation of the benchmark numbers for the managers of the world. This is one of the reasons for the popularity of joint venture research and development projects. The costs of a joint venture can be capitalized and charged off over a period of years, rather than being deducted in the current period. It is also a major driver of the interest in mergers and acquisitions. Costs of acquiring another enterprise are not operating expenses, so they do not affect the budgets or benchmarks of the managers making the daily decisions.

	Driving Factors in Large Enterprise Innovation
✓	Most large, successful companies engage in elaborative innovation only
✓	Major breakthroughs and significant original innovations occur in small enterprises
✓	Evaluation systems for managers stress internal rates of return and cost containment
✓	Research and development costs are charged against revenues this year whether successful or not
✓	Costs of merger or acquisition or joint venture are capitalized, not expensed
✓	Failure to achievement benchmark objectives is career limiting for a manager
✓	Reward systems for managers do not create significant returns for over-achievement of objectives
✓	Over-achievement tends to lead to higher expectations in future years
✓	The down side potential for failure tends to outweigh the upside potential for success
✓	Buying a small enterprise with a proven innovation is the least risky course of action

Can there be any wonder that managers see failure as career limiting? It *is* career limiting. Tom Kelley of IDEO told an apocryphal story about a senior level manager in large company who was presented with the world's first wireless mouse (Kellely & Littman, 2001). IDEO had developed that innovation when infrared transmitters began to be used on personal computer systems. The manager turned down the innovation saying, *"If it fails, I'll be known for the rest of my career as the guy with that stupid cordless mouse!"* (Kelley & Littman, 2001). Better not to adopt an unproven innovation, even one with such obvious potential, than to risk such a stigma! Right!

So, what is a wise manager to do? There is only one safe course of action! Make sure your research and development people concentrate on peanut butter jars, not peanut butter. Control your R&D expenses carefully. Then, watch the market place. Just watch! Sooner or later, some crazy entrepreneur will arise and *prove* the viability of an innovation which you can use in your company. When that happens, you buy the little enterprise. It is likely to cost less to buy the little enterprise than it would to develop the innovation in house. More important, the cost of buying the venture won't be charged against your budget. Most important, buying a proven innovation is clearly the least risky course of action available!

There are exceptions, of course. A number of large enterprises have been successful at establishing an environment which really *does* encourage innovation. The secret is quite obvious; one must eschew the traditional management evaluation system. It requires commitment from the top levels of the organization and a willingness to resist pressure from shareholders.

There will be pressure from shareholders because innovation is wasteful! It produces failures which consume resources. It produces a playful atmosphere which is seemingly less efficient. In fact, nothing about innovation is efficient! That means that most of the time when we see a large firm supporting innovation among its people, that firm is producing such great returns for its shareholders that they don't resist the "waste of resources." If the returns to shareholders begin to lessen, top management will discover that supporting innovation becomes much more difficult, and even career threatening. In fairness to large enterprises, it is this external pressure from shareholders which stacks the deck against innovation despite the best intentions of well-meaning people.

CRAFTING AN ENVIRONMENT TO SUPPORT CREATIVITY

Typically, innovation does not occur on demand and yet that is what we often hear in the corridors of the large corporations. *"We need a new product, a new idea, a new market!" "Quick, let's brainstorm!"* While some of us have many ideas, others of us have fewer. Idea people usually are not as qualified to evaluate their ideas for commercialization. It is almost as if we have dreamers and doers and we need a marriage between the two to turn those dreams into reality. That is one of the reasons for the power of an entrepreneurial team. But, again, creativity does not happen at the snap of a finger. We need to have the right environment, the right culture, the right philosophy and the right people.

Most of the stories of truly innovative ventures have all of the best of these "*rights."* Take IDEO (Kellely & Littman, 2001), Mars (Brenner, 1999), Google (Vise & Malseed, (2005), and Southwest Airlines (Freiberg & Freiberg, 1996), as examples. They are quite successful companies who began much as you desire, some with more money and some with less, with a dream of providing the best products or services that they could provide while having fun and being profitable and helping others.

Each of these ventures created an open environment: one in which questions were welcome, discussion was expected, ideas were respected and possibilities were challenged. The structure allowed for openness and communication with the founders. There were no ivory towers, but constant engagement and lots of fun. Open areas, not enclosed rooms, gave the opportunity for the cross-fertilization of ideas, much as that process originally occurred in Edison's *Invention Factory* (Beals, 1999).

Edison provides a wonderful role model for the marriage of innovation and entrepreneurship. A great practical joker, he encouraged fun, and experimentation, and had a healthy respect for those who had tried and failed. Many of the founders of the most innovative companies embraced failure as it not only showed initiative, but also resulted in learning on the part of the individuals who had attempted the impossible but discovered something else. Edison pursued invention for the purpose of creating commercializable products. His failure to find a market for his first invention, an electric vote counting machine, led him to vow never to waste time inventing things that people would not want to buy. (Beals, 1999). We suspect that he was still prey to the psychic rewards of innovation, but recognized the need to make money to keep his stream of innovations flowing. His remarkable career was more about entrepreneurship than invention as he created a network of companies to exploit the products that flowed from his *"invention factory."* Among these was the Edison General Electric Company, which became General Electric (Beals, 1999)..

If we examine the organizational environment which Edison pioneered and which modern firms have coopted to establish innovative firms, we can see a prescription which any organization, large or small, can follow to craft an environment to support creativity. In some organizations, changing the environment may be more difficult than in others, but these changes are within the grasp of any organization whose leadership has the will to persevere. This prescription, outlined in the following table, has been demonstrated to be effective in countless companies.

We do have one word of caution for would be adopters. Once you have made the change to this organizational structure, there is no going back! If you try to create an enclave to support innovation following our prescription, then reintegrate the people into the firm, those people will leave you! They will not be able to tolerate the return to a traditional corporate world. Indeed, in our estimation the only reason that creative people do exist in the traditional corporate world is that they have never really experienced the joy of a truly creative environment.

	Crafting an Environment to Support Creativity
✓	Employ open spaces, not offices or cubicles, so that people interact freely and continuously
✓	Foster an environment of playfulness and fun
✓	Create teams and discussion groups to explore ideas; use both sexes and widely diverse backgrounds
✓	Forbid negative thinking; forbid critical thinking; forbid judgmental thinking; encourage wild ideas
✓	Embrace and laugh about failure; celebrate successes
✓	Eliminate numbers from evaluation systems and create upside potential without its corollary
✓	Focus on having fun; never focus on outcomes

Can you change your organization? Can you craft this supportive environment? With the support and belief of top management, you absolutely can! One of the adages which seems to be responsible for the immense success of Stanford University graduates has become a favorite of ours. The command is to *"...create a healthy disregard for the impossible"* (Vise & Malseed, 2005). With such direction, how could one not innovate!

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