Entrepreneurship and Leadership - Prerequisites for a Winning Organisation

Graeme Cocks, Melbourne Business School
Jens Mueller
Magdalena Hadji
TOOLKIT FOR LEADERS:
ENTREPRENEURSHIP AND LEADERSHIP –
PREREQUISITES FOR A WINNING
PERFORMANCE

Magdalena Hadji
Business Strategist and MBA Candidate
The University of Adelaide Graduate School of Business
233 North Terrace, Adelaide SA 5005, Australia
magdalena.hadji@student.adelaide.edu.au
+61 435 081 280

Graeme Cocks
Associate Professor - Operations Management
Melbourne Business School, Melbourne, Australia
g.cocks@mbs.edu

Jens Mueller
Associate Professor for Entrepreneurship and Strategy
Waikato Management School, Hamilton, New Zealand
m@usainfo.net
Abstract

Effective leaders strive to attract and develop the right people with the right values in the right positions that are aligned to their organizational strategy. From this premise, this paper identifies a driver of high performance as developing future leaders from within and at all levels of the organization in an effort to produce a self-sustaining leadership culture and team. It is argued that the addition of an entrepreneurial culture to this leadership domain will create superior organizational performance and thus enhance the leadership effectiveness.

Entrepreneurship and leadership concepts are contrasted on the basis of current literature and empirical evidence gained from assessments of high performing organizations over the long term. Interdependencies have been identified: the role of leadership at Australia’s Macquarie Bank is “to create an environment that is supportive of entrepreneurs” (Hubbard, Samuel, Cocks, Heap, 2007:145). In Search of Excellence denotes ‘autonomy and entrepreneurship’ as one of the eight attributes that characterize their excellent, innovative companies (Peters and Waterman, 2004:13–14). Good to Great prescribes that “when you combine a culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great performance” (Collins, 2001:13).

This paper explores empirical evidence that links the ability to inspire and cultivate entrepreneurial qualities with leadership to generate organizational success. It discusses the leadership and entrepreneurial characteristics that will be needed to create and sustain an organization that is able to effectively execute its corporate strategies over the long term – resulting in the development of a core competence to adapt rapidly to changes in its external environment through the deployment of fluid and dynamic strategic plans.
1. Introduction

Enhancing organizational performance has been a perennial crusade for organizations, researchers and consulting groups alike. Many of the current performance improvement recommendations merely focus on discrete elements of the organization rather than applying a holistic approach to organizational management. Several authors have taken this holistic approach and investigated enterprises that have displayed winning performance over the long term in an effort to identify the practices that set them apart. Common themes emerge from the studies. This paper analyses the entrepreneurial and leadership themes to uncover how the practices that lead to long-term performance can be combined to create superior organizational performance.

2. Review of Current Research

There are countless published articles, case studies and texts on leadership. Some researchers have collected empirical evidence on the impact of leadership traits on organizational performance and how to attract (and retain) the right people into an organization. The ‘right people’ are described as having the right attitude, they fit with the organization’s culture and strategy and are proud and committed to the organization’s cause (Hubbard et al, 2007:201-203). These are the people who are expected to become the future leaders of their organization.

Good to Great and The First XI espouse the importance of having the right people in the right positions at all levels of the organization to create a self-sustaining leadership culture and team environment. Such self-motivated individuals can maintain a level of discipline and motivation that transcends the need for organizational hierarchy, bureaucracy, rigid organisational structures and excessive controls. Their discipline allows for effective execution of dynamic strategies and the ability for an organization to pre-empt and adapt rapidly to changes in its external environment. The Good to Great leaders undertook that “if you begin with “who”, rather than “what”, you can more easily adapt to a changing world” (Collins, 2001:42). We suggest that adding a degree of autonomy and entrepreneurship amongst people, as discovered by In Search of Excellence in their study of high-performing innovative companies, can provide the foundation for a combined entrepreneurial and leadership model that leads to superior sustainable organizational performance.

All three studies (In Search of Excellence, Good to Great and The First XI) chosen for evaluation in our work are based on evidence gained from selected high-performing organizations over the long term. Long-term investment in these organizations yielded financial returns that significantly surpassed those of their related stock market indices over the same period.

Common Themes

Recurring themes have been discovered from analysis of the research literature. In Built to Last, Drucker is quoted as believing that the “best and most dedicated people are ultimately volunteers, for they have the opportunity to do something else with their lives” (Collins and Porras, 2004:228). Volunteers can also be viewed as the ‘right people’ that populate high-performing organizations identified in Good to Great and The First XI, as volunteers are also
self-motivated, proud and committed to their organisation’s cause. In Search of Excellence found that all team members in new venture teams, such as those created at 3M, are volunteers. “The team members are recruited, not assigned” (Peters and Waterman, 2004:226) as this guarantees the passion and ultimate commitment to each project undertaken.

Based on their investigations into a wide variety of leaders and successful organizations in the USA, Europe and Asia, Deering, Dilts and Russell (2003) in Leadership Cults and Cultures identify three key aspects of leadership culture. One of these key aspects relates to ‘align’, paraphrased as:

Align – “achieving congruence in values and behaviours of self and others, creating an aligned organization ready to act effectively in pursuit of the organization’s goals”.

Congruence in values and behaviours is consistent with having the right attitude and organizational fit required of people in high-performing organizations. These personal attributes provide the platform for effective execution of business plans and strategies.

In comparison to Good to Great and The First XI’s ‘right people’, Jack Welch’s ‘right people’ are General Electric’s Type A leaders, defined as people who live the values of General Electric (GE) and deliver on commitments (Krames, 2005:10–11). These “A” players are the leaders Welch strived to hire and worked hardest to retain. In fact, those who delivered on commitments but did not share the values of the organization (denoted as Type C) were effectively terminated (Krames, 2005:11). This was a controversial discipline to follow given Type C leaders did get the work done. Yet the potential harm to the organization from “C” players not believing and upholding GE’s values, was considered far more detrimental than the organizational benefit derived from their ability to deliver on commitments. Few organizations uphold these values consistently. Again, a common theme emerges regarding the importance of populating roles with people having the right values and right attitude for the business.

3M’s flexibility and informal organizational structure allows their ‘right people’ the freedom to pursue new ideas in their Division, or if not taken up, in another 3M Division that considers their project feasible (Peters and Waterman, 2004:232-233). As an exponent of decentralization, 3M believes in spinning-off new Divisions rather than letting existing Divisions attract higher sales volumes and grow too big, arguing inter alia that large organizations lose an element of entrepreneurial effectiveness. Hewlett Packard (HP) operates in a similar fashion. When one of HP’s Divisions grew to 2,000 staff, the Division reorganized itself into three separate units each with their own product development facility (Peters and Waterman, 2004:214-215). This limited the bureaucracy associated with larger firms, and gave HP the freedom to develop and test new products specific to each unit. The ability to innovate within small Divisional units provides organizations like HP and 3M with the potential to offer many new product variations, driven by a better focus on clients and market opportunities rather than compliant conduct within a larger organization. 3M employees working within this type of structure provide a “coherent sentence” as a first draft for new product proposals, as 3M prefers not to constrain staff with lengthy documentation, particularly at the initial stages of product development when uncertainty is highest (Peters and Waterman, 2004:232). Hence, when the ‘right people’ with the right attitudes are placed in the right roles, the need for hierarchy, bureaucracy and excessive controls
is minimized. Allow these people freedom and flexibility to pursue their ideas, together with an overseer to provide management control, and the organization begins to develop a core competence of adapting rapidly to environmental trends and changes. We see this flexibility to pursue innovation as the infusion of entrepreneurship. Hence, we argue that entrepreneurship should be one of the criteria considered when forging high-performance teams together, as it is a value-based approach to harvest innovative contributions.

3M’s overseers are called champions – leaders and role models who protect teams from company bureaucracy and ideas from automatic negation, and are savvy enough to effectively vet projects in line with company goals. 3M’s value system is explicitly structured to encourage entrepreneurial activity. Their ‘eleventh commandment’ is: “Thou shalt not kill a new product idea” (Peters and Waterman, 2004:227). If a member considers a new project not worth undertaking, 3M directly places the burden of proof on the member who wants to stop the project, not on the person proposing the project. 3M believes this will positively stimulate entrepreneurial activity (Peters and Waterman, 2004:228). Reversing this onus of proof as 3M has done is opposite to the majority of organizations’ new project and product development processes, and is testament to 3M’s entrepreneurial culture. Would your organization free their designer or inventor to pursue their projects in this same fashion?

How many organizations truly believe in leadership at all levels? Attempts have been made to extend the leadership theme beyond the CEO and top management team to include “all those who have profit responsibility (e.g. divisional and group managers), those who manage significant parts of the organization that are revenue or expense centres (e.g. unit managers), and the board of directors” (Hubbard, 2004:242-243). Clearly, there are different levels and contexts of leadership, and the view of leadership being the domain of the ‘omnipotent’ and those responsible for the company’s profitability is far beyond the realm of those, for example, leading cross-functional teams or departmental improvement teams. Their influence on enlightening, motivating and empowering staff to achieve a common enterprising goal is not beyond these individuals’ control. Therefore, the potential power of leadership extends to building an organization that is ready and able to adapt rapidly to changes in its external environment and its business strategy, by having groups of individuals at all levels of the organization displaying leadership qualities. The First XI takes this point of view by identifying “Leadership, Not Leaders” as one of the key characteristics shared by winning organizations.

Does entrepreneurship play a part in leadership organizations staffing positions with the ‘right people’? Lend Lease, identified as a winning organization by The First XI, describes their ‘right people’ as entrepreneurial (Hubbard et al, 2007:205). Macquarie Bank, another of The First XI’s winning organizations, sees the role of their leadership as “to create an environment that is supportive of entrepreneurs” (Hubbard et al, 2007:145). “Autonomy and Entrepreneurship”, one of eight attributes characterizing excellent, innovative companies in In Search of Excellence, highlights the importance of independence, creativity and innovation. This applies particularly in organizations that know when to create spin-offs to manage optimal ‘small size’ business units – in a way that allows entrepreneurial activity to flourish with a degree of autonomous control (Peters and Waterman, 2004:200-201). Thus, an entrepreneurial theme emerges in what is seen and proven to be successful organizational performance.
De Geus discovered during the famous Royal Dutch/Shell study of Fortune 500 firms that most of the large corporations suffered from learning disabilities, and were unable to adapt and evolve as their environment changed (De Geus, 2003:1). The average life expectancy of Fortune 500 firms was quoted as 40 to 50 years (De Geus, 2003:7). To most this may still be a considerable amount of time. To the people at Royal Dutch/Shell, long-term performance is seen as being in existence successfully for at least 100 years. As a result of De Geus’ ensuing examination on corporate longevity, undertaken on large organizations successfully operating for 100 years or more, four common factors were uncovered (De Geus, 2003:12-14):

- **Long-lived companies were sensitive to their environment**
  - They appeared to “excel at keeping their feelers out, tuned to whatever was going on around them” (De Geus, 2003:12) allowing them to react in a timely fashion to environmental conditions.

- **Long-lived companies were cohesive, with a strong sense of identity**
  - “Managers were typically chosen for advancement from within” (De Geus, 2003:13) highlighting the leadership ability of people at all levels within these companies.

- **Long-lived companies were tolerant**
  - They were tolerant of activities in the margin, such as “outliers, experiments and eccentricities within the boundaries of the cohesive firm” (De Geus, 2003:14), which allowed these companies to stretch their understanding of possibilities open to them, highlighting an entrepreneurial element in their culture.

- **Long-lived companies were conservative in financing**
  - This provided them with “flexibility and independence of action to pursue options that their competitors could not” (De Geus, 2003:14), highlighting their ability to act rapidly and grasp opportunities before competitors who had to first convince third-party financiers for funding.

Clearly, there is evidence of leadership at all levels, entrepreneurial activities and the ability to sense opportunities and adapt rapidly to changing conditions amongst De Geus’ study of successful corporate longevity.

Another of Deering et al’s three key aspects of leadership culture contained in successful organizations is the ability for an organization to ‘anticipate’, paraphrased as:

**Anticipate** – “getting ahead of the curve, requiring the mental agility to respond to weak signals or trends to create a fluid organization that adapts quickly to new circumstances”.

Again, here is a common theme in organizations exhibiting a leadership culture and responding to changing circumstances in a fluid and dynamic manner. The mental agility to respond to weak signals and emerging trends is generally a skill engrained in entrepreneurial behaviour.
Having the right people at all levels of the organization with leadership skills and entrepreneurial ability appears to foster the necessary skills to consistently outperform competitors.

The development of entrepreneurship within a corporate environment is not a new concept. “Intrapreneurship” (another term for corporate entrepreneurship) is the creation of an overall climate of entrepreneurship within an organization and throughout its layers of leadership and management, used when integrating the benefits of small firms with the market power and financial resources of large firms (Carter and Jones-Evans, 2006:267). Intrapreneurship therefore attempts to infuse the motivational benefits of a small-size, agile enterprise into a larger entity, giving innovative staff an opportunity to remain and perform, rather than to leave for lack of applying their talents. Intra-corporate venturing – creating new ventures within an existing organization to stimulate or develop new products, processes or improvements (Carter and Jones-Evans, 2006:268), parallels with 3M’s and HP’s break-away autonomous business units and independent spin-offs. More employees in such organizations take the initiative to undertake something new, and the resulting innovations are often created by employees without being asked, expected or even given permission by higher management. This type of activity may only flourish if failure is seen as a learning experience and tolerance of risk, ambiguity and mistakes is encouraged through experimentation (Carter and Jones-Evans, 2006:273). It is unlikely to occur in traditional corporate cultures that add layers of management structure in order to control the growing corporation and reward based on caution in decision-making. Intrapreneurship requires considerable trust in leadership to assure staff that the trial-and-error process of innovative behavior is accepted as a necessary cost of doing business, rather than as a punishable aberration.

In Losing My Virginity, Richard Branson alludes to the behaviors that drove him and the staff he employs to create a global Virgin Group brand. Rule-breaking, a thirst for learning, conviction, teamwork and project loyalty are paramount (Branson, 2005). Branson’s constant hunger for challenges and adventure may well inspire his resulting corporate take-overs and business diversification. The majority of Branson’s acquisitions are innovative and make good use of his corporate image, and Branson leverages his Virgin brand to obtain equity partners via a method he terms “branded venture capital” (Inc. Magazine, 2005). Branson ensures he has a leadership team that can successfully implement his corporate strategies, and his team is empowered to offer, question and reject business ideas, whether they be his ideas or theirs. This cultivates an 'entrepreneurial' leadership style with a high element of decentralized empowerment and delegation to staff.

By integrating the strengths of small firms and the characteristics of entrepreneurs – such as creativity, flexibility, rapid adaptability, innovation and nearness to market – with the scale, market reach and financial resources of large companies, an appropriate entrepreneurial corporate climate can be created. Combine the ability to cultivate leadership at many levels with the encouragement to exhibit entrepreneurial qualities within individuals and teams, and the organization now has the capability to execute its strategies and adapt rapidly to changing environments in a sustainable fashion.

3. Organizational Performance Enhancement
There are organizations that attribute a period of organizational success to their strong leaders. Others will take the next step and create a leadership team that continues to perform and succeed when the original leader leaves the organization. This step of creating a leadership culture is even more critical for effectively executing strategic goals and adapting to rapid change. In a similar vein, there are successful entrepreneurs who create organizations from the ground up, only to find their organization fails once they depart. If they had installed a professional leadership team and retained the entrepreneurial culture, so that it could continue to innovate and sustain its entrepreneurial performance, the organization could then succeed over the longer term. Thus, by combining a leadership culture with an entrepreneurial culture a model for superior performance begins to emerge.

Conventional leadership tends to over-emphasize the importance of short-term financial returns, with many firms suffering from EBITitis. High-performing organizations take a more strategic long term view and understand that profits are merely a symptom of success (and not a predictor of success) and only one symptom at that. This approach of looking at the long-term sustainability of a market position separates profit shortsightedness from a holistic view that includes a wider group of stakeholders, rather than just shareholders. De Geus considers the “twin policies of managing for profit and maximizing shareholder value, at the expense of all other goals, [to be] suboptimal, even destructive” (De Geus, 2003:21-22). To most contemporary corporations and leaders this makes intuitive sense, yet why do most organizations still act in a way that makes it clear (short-term) profits are the most important company priority?

An entrepreneurial culture should not be considered unless the organization is willing to invest funds with no expectation of return for five to ten years (Carter and Jones-Evans, 2006:273), and we submit that this time frame might vary based on the particular market and its speed of movement. Smaller entrepreneurial shifts may well pay dividends much sooner. This counters general management thinking concerned with short-term returns on capital. In a similar fashion, a leadership culture should not be established within an organization unless the organization is willing to invest time and funds in its people, to nurture and develop them to become their future leaders. An organization must then be able to identify who their 'right people' should be, what sort of values and behaviors they require, and how to place them in positions suited to their strengths and future potential. This approach likely transcends informal leadership grooming within a firm and might require formal leadership training.

Drucker is quoted by In Search of Excellence as stating that “a top management that believes its job is to sit in judgment will inevitably veto the new idea” (Peters and Waterman, 2004:46). Innovations, by definition, are removed from the mainstream of business and may show little promise at the early stages of their development. Hence, they may be considered a potential money pit, and not profitable to the organisation in the short-term. The leader or champion’s role is critical at this point to shepherd the innovation into fruition. Organizations need to be prepared for the volunteer champion (inventor, entrepreneur or project leader) to be a creative fanatic, somewhat obnoxious and impatient (Peters and Waterman, 2004:206). The executive champion must then protect the volunteer champion from company bureaucracy and protect the early stage innovation from automatic negation.
Decentralization is key here in assigning differing levels of leadership with the authority to initiate and implement new ideas. However, decentralizing whilst expecting people to be creative is not an automatic solution to establishing an entrepreneurial culture. Creativity does not automatically lead to innovation. “Creativity without action-oriented follow-through is a barren form of behaviour” (Peters and Waterman, 2004:207). Creativity is the formulation of ideas; innovation is the follow through of those ideas into action, something more tangible. Thus, effective execution of proven ideas and business strategies is evidence of an effective creative process in action.

Peters and Waterman quote from a National Science Foundation study that “small firms produced about four times as many innovations per research and development dollar as medium-sized firms and about twenty-four times as many as large firms” (Peters and Waterman, 2004:200). 3M and HP appear to support this fact by creating spin-off Divisions once their existing Divisions become too large. This provides the lower corporate levels with the leadership and authority to undertake projects and approve funding needed to produce innovations. In fact, breaking the corporation into smaller companies and encouraging them to think independently and competitively aids in being able to innovate and adapt rapidly, aids in creating differing levels of leadership and so enhances the leadership and entrepreneurial culture of the organization.

4. The Implementation Challenge

This research has identified the importance of creating both a leadership AND entrepreneurial culture to achieve superior organizational performance over the long term.

To promote this culture, it is proposed that an organization needs the following leadership qualities:

- Ability to empower others to influence, enlighten and motivate individuals to achieve the organisation’s goals
- Comfortable with providing staff autonomy and encouraging people to manage upwards as needed
- Embrace involvement of all staff levels in the creation and implementation of the organisation’s business strategy
- Acceptance or tolerance of failure (and learn from it)
- Encourage a controlled level of risk-taking
- View informal communications as the norm
- A consideration of sustainability in strategy and operation

And an organization needs the following entrepreneurial qualities:
Manageable business unit size
Flexible and passionate teams working under a flat hierarchy with permission to innovate
Encourage internal competition
Preference for decentralized and agile units and systems
Techniques to encourage close contact with the customer
Tolerance of ambiguity and uncertainty
Willing project champions to volunteer and follow projects through to implementation
Executive champions to protect early stage innovations from automatic negation

A system for measuring successful implementation of these concepts is required. This may be accomplished by considering the levels of entrepreneurship and leadership that are exhibited in an organization. Using Kaplan and Norton’s (1992) well-known Balanced Scorecard method, an organization could consider such measures as:

- Number of innovations generated through new products/ processes/ improvements per calendar or financial year
- Number of innovations rejected versus number accepted
- Innovation market value versus value achieved
- Speed to market
- Percent of revenue obtained via new products and services less than two years old
- Percent time devoted to leadership development
- Retention rates (internal versus external hires)
- Percent retention of identified high potential individuals
- Compensation linked to potential versus actual achievement (lead versus lag indicators)
- Leveraging workforce diversity and employee empowerment
- Professional development of “right” rather than “best” people

These measures provide clarity on specific actions that are required for your organisation to build a leadership and entrepreneurial culture in order to encourage people at all levels to play a positive role in achieving the organizational goals.

5. Conclusion

Sustained winning performance can be achieved more effectively by those organizations that appreciate the levels of ownership and entrepreneurial contribution required by all people working in the organization and for a wider group of stakeholders. Leadership at all levels is a necessary prerequisite to stimulate creativity, innovation and risk-taking behaviour. The ability
to harness the creativity, energy and commitment of people at all levels to rapidly adapt to changes in the organization’s external environment is achieved through building an appropriate balance of leadership and entrepreneurial qualities. This can provide the entire organization with the ability to execute strategic plans more effectively. Such organizations understand the long-lasting benefits derived from empowering their people with entrepreneurial tools, trust and authority. In doing so, sustained superior performance is an expected outcome.
References


