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Corporate Entrepreneurship: Weighing the Risks and the Rewards
Eleven CEOs Exchange Insights at Leadership Summit

by Chris Trimble and Julie Lang

The cycle of boom and bust was harsh indeed to the aspiring entrepreneurs of the dot-com era. Seeking to discover how the NASDAQ collapse affected support for entrepreneurial endeavor within corporate walls, the William F. Achtmeyer Center for Global Leadership at Tuck convened its first *CEO Leadership Summit* on March 11, 2002, moderated by Professor Vijay Govindarajan, Director of the Center. Included were eleven CEOs from industries as diverse as software, publishing, and natural resources.

Interestingly, according to this group of leaders, almost nothing has changed. "I think you're putting too much emphasis on the last 18 months," responded Peter Francis, CEO of JM Huber. According to Richard Harrington, CEO of the Thomson Corporation, which supports new ventures to with an internal $150M per year fund, "We scrutinized more, but we didn't stop doing [new ventures]…We focused on those that had a more strategic impact on the organization…We did some fine tuning." Several others agreed that while the economic downturn required some attention to controlling administrative costs and salaries, investments in the future needed to be sustained.

Attitudes towards corporate entrepreneurship may not change quickly, but they are notably diverse, particularly in terms of emphasis. For some, the attempt to create, grow, and profit from completely new business models is an ongoing struggle. For others, it is a decidedly second-tier priority.

Building a new venture within the walls of an established corporation is a decidedly unnatural act. So perhaps it is unsurprising that any corporation presented with "lower hanging fruit" – that is, growth opportunities that are less difficult to capture – would naturally seek to avoid the risk and complexity of entrepreneurship. If Wall Street's demanding growth expectations can be met any other way, why bother?

For many industries, the race to grow through global expansion continues, and it is an all-hands, full time effort. Jukka Harmala, CEO of Scandinavian paper giant Stora Enso, now the second largest paper company in the world, has taken his company from a Finn exporter to a company with operations all over the world. Given the demands of learning to manage across diverse cultures and transitioning to the more decentralized operating style appropriate for a global corporation, how much managerial energy can be left for considering speculative new business models?

Goldman Sachs is in a similar situation as it has deliberately tripled the size of it's organization between 1996 and 2000, with most of its growth overseas. Recreating a

stellar reputation in societies “where the relationship between government and private sector, and, for that matter, the media, is quite a bit more intertwined than it is in this country” is Goldman’s biggest issue, explained John Thornton, President and COO.

So when would a corporation risk a significant portion of its earnings on a risky new venture? Several participants expressed extreme hesitation about ever going so far out on a limb, one even suggesting that doing so was an indication that “you needed to have your head examined.”

Maybe, but certainly a severe threat—something that feels like the barrel of a gun pressed against your temple—can be sufficient to alter the risk-taking equation. Perhaps that is how the New York Times Company felt when confronted by the possibilities of what the Internet could do to their business. According to Russ Lewis, CEO of the New York Times Company, by 1997, “Websites were proliferating like crazy, and we actually started to take seriously the notion that the Internet…might actually be a threat to our core business. After all, people were giving away content for free.”

That was enough to motivate the company to tolerate losses of up to $80M per year (compared to annual earnings for the company in the neighborhood of $400M) while building their new-media business unit, the New York Times Digital, which reached profitability this year. Interestingly, many of the more important revenue sources from the Internet unit were unanticipated; for example, the New York Times on the Web has become a robust source of new subscriptions to the print version of the paper.

Technology can create tremendous threats in healthcare as well. John Foster, CEO of NovaCare and long-time investor in health industry ventures, observed how entire segments of the health care industry can quickly dry up. “Cardiac surgery is going down…because of the influence of pharmaceuticals.” Mr. Foster predicts a similar fate for orthopedics. “In 20 or 30 years, instead of getting a new hip, you will get a shot and your hip will regenerate.”

While potentially disruptive technologies may be the most common perceived threat to existing businesses, they are not the only one. Also of concern are dying customer bases. For example, Bill Achtmeyer, President and CEO of the Parthenon Group, observed how the growth in popularity of the MBA degree has threatened the relevance of the consulting business. “It used to be a big deal to get MBAs to provide advice and give analysis. But now companies are populated with very talented people.”

In other cases, customer needs don’t go away, but change dramatically. For example, while traditional textbook sales was once Thomson Learning’s mainstay, lifelong learning has grown to equal size. Adults have a different approach to learning, however. “They learn in smaller chunks of time, and need information more appropriate to the moment,” according to David Schaffer, President and CEO of Thomson Learning.

Wholly new kinds of competitors are another threat. Today the Thomson corporation is concerned as much about software companies as other publishers, and the Tuck School worries about corporate universities as much as Harvard and Stanford.

While it is easy to be an alarmist, it is difficult to know how to identify threats that truly warrant gambling on a new business and putting corporate earnings at risk. As Mr. Harmala dryly observed, "We [the paper industry] have been condemned, I don't know how many times in our history. Paperless offices, you remember. Have you seen them?"

How often do real threats come along? The answer seems to vary tremendously by industry. Compare fast moving technology markets to the tire industry, for example. Eric Bourdais de Charbonnaire of Michelin recalls, "Michelin made one bet. That bet was the radial tire." At that time, in the 1960s, Goodyear was ten times the size of Michelin, but today they are of comparable size. While the industry remains dependent on R&D, there has not been a comparable invention that has shaken up the industry to the extent that the radial tire did.

Beyond simply identifying threats, it can be difficult to estimate just how much time you have to respond. Professor Sydney Finkelstein has studied over 40 corporate mistakes, including Johnson & Johnson, who was slow to respond when Guidant managed to get approval for a next-generation stent (a surgical device for clogged arteries) in record time. J&J's market share subsequently fell from 91% to 8%.

Professor Finkelstein, who moderated a portion of the Summit, has dedicated several years of research to understanding exactly why corporations make such mistakes. Participants offered several inputs. Most often mentioned was simply the hubris and perceived invincibility that follows success. According to N.R. Narayana Murthy, CEO of India's largest and most respected software company, Infosys, "[J&J's] mistake was that they didn't respect the competitor. They had no humility." Mr. Harrington added, "The mistake is being greedy," explaining that this can also lead to a tactical error of being resistant to lowering price when a threat looms. Once a company is making tremendous profit margins, maintaining them becomes a point of pride. Unfortunately, this only encourages competition.

Another dangerous pattern that can follow the smug self-satisfaction of success is that you quit listening to the customer. Mr. Murthy emphasized the importance of empowering the portion of the organization that is most often in direct contact with customers. "For example, finance guys, human resources guys, computers and communications guys, technology guys…if they have the upper hand…generally that organization is going sour"—meaning headed for trouble.

Many of the CEOs at the Summit had experimented with seeding new ventures, and shared similar frustrations. One is finding the right leaders. "Almost by definition, you won't find entrepreneurs in big companies. This is…an oxymoron," observed Mr. Francis, who finds he can separate the real entrepreneurs from the dreamers with ideas within his company simply by asking for a detailed business plan. Even if you have the right ideas, creating the right environment with the right pressures within a corporate environment is a difficult hurdle. "The difference between big business folks and small business folks is that when you have your payroll…on your credit card…you pick up the phone and you make the [sales] call," Mr. Francis continued. Glen Britt, CEO of Time Warner Cable agreed. "It is important to set them up separately from the main operation. Instead of having nice desks they ought to have old

used metal desks and they ought to act like entrepreneurs."

To help create a distinct culture ("We don't want them sitting in our office…"), Mr. Murthy will take only a minority stake in many of Infosys' new ventures, often seeking a venture capitalist to play a substantial role. "Venture capitalists validate the idea…they have much better experience to evaluate. [Also, they] will connect [the new venture] to prospective key customers and employees."

Several other techniques for managing new ventures were discussed. For example, Goldman Sachs keeps tight control over new ventures (usually technically-based new products), and decides as quickly as possible whether the new idea is a success or a failure. That way the amount of capital and reputation that is risked is minimized.

That may work well in financial services, but investment timeframes are unavoidably long in other industries. For example, Time Warner Cable began experimenting with high speed digital connections to the home in the early 90s with a highly-publicized experiment in Orlando. Lessons learned from that experiment led directly to their broadband Internet business, and also to an understanding of the appetite for Video-On-Demand. Both business are still being built today. Though building the technological infrastructure underlying such operations seems dauntingly complex, Mr. Britt believes the challenge of building a human infrastructure capable of fully exploiting new business possibilities is harder still. Internal resistance to change is difficult to tackle, as is establishing a mode of operation which emphasizes exploring and learning about new opportunities rather than exploiting existing ones.

In sum, while corporations have many advantages over start-ups in growing new businesses, there is no underestimating the challenges that they face. Many will attempt it only in small doses, only when other growth options are extremely scarce, and only if there is a credible and severe threat to existing businesses.

The threat of radical change is clearly much more frequent in some industries than in others. But it seems undeniable that with the twin forces of globalization and the digital revolution, the potential for radical change in most any industry is greater now than ever before.

That's why it is important for corporations to develop skills in managing startups, and practice them continually. Companies that create radical change in industries, rather than waiting until they are forced to adapt, are much more likely to succeed over the long term. The Center for Global Leadership has initiated a study of best practices in corporate entrepreneurship, and will be sharing the expertise it gains through several channels, including future CEO Leadership Summits.