Developing an Entrepreneurial Mindset: Does Size of Firm Matter?

Philip A. Dover[1] and Udo Dierk[2]

Chair, Marketing Division, Babson College, Wellesley, USA
President, MEL-Institute, Paderborn, Germany

dover@babson.edu
udo.dierk@mel-institue.com

Abstract

What matters is not so much whether companies are big or small, but whether they grow. Progress comes from high growth companies. The best ones can take a good idea and use it to transform themselves from embryos into giants. The key to promoting innovation lies in allowing vigorous new companies to grow big, and inefficient old ones to die. We argue that the archetypical roles of managers, leaders, and entrepreneurs have a significant impact on the sustainable fortunes of the organization. We introduce a measurement tool (the MEL-Index) that allows companies of all sizes to measure their respective managerial, entrepreneurial and leadership capabilities at both the individual (e.g., C-Suite and direct reports) and institutional (corporate, business unit, country, etc.) levels. We provide examples of the tool at work on different growth scenarios in German and North American companies. Results support the concept of the *ambidextrous organization* where the required balance of MEL skills moves back and forth according to market dynamics. Moreover, the MEL findings can have significant operational implications for such activities as recruitment, training and remuneration.

Keywords: Firm Size; Sustaining Innovation; Managers, Entrepreneurs and Leaders

Preamble

Prior research (e.g., Dover and Dierk, 2010) has shown that the archetypical roles of managers, leaders, and entrepreneurs have a significant impact on the sustainable fortunes of the organization. The manager is thought to be mainly involved in dealing efficiently with current and near-future business activities, leaders are seen as the agents of change, looking to the future to provide vision and strategic direction, while entrepreneurs stimulate change by identifying and pursuing opportunities. As companies pass through fluctuating economic conditions, the optimal balance of managerial, leadership and entrepreneurial skills required for ongoing success will vary. The term increasingly used for these phenomena is the *ambidextrous organization* (first introduced by O'Reilly and Tushman, 2004) where the emphasis shifts backwards and forwards like a pendulum from managing the present (doing the same things better) to adjusting for the future (doing things differently). An *a priori* assumption is that the small and medium sized enterprise has greater speed and flexibility to adapt to market volatility. But is this correct? We will briefly explore the literature for correlates of business success/failure and then introduce a measurement tool (the MEL-Index) that allows companies of all sizes to measure their respective managerial, entrepreneurial and leadership capabilities at both the individual (e.g., C-Suite and direct reports) and institutional (corporate, business unit, country, etc.) levels. We will provide examples of application of the tool in SMEs and large corporations in both Germany and the US and show its diagnostic value in the search for a balance of skills based on contextual variables such as the industry life cycle, market forces and the socio-economic environment. In particular, we will show how the MEL-Index has been used to allow a real-time assessment of competencies and to subsequently encourage the development of an action plan among senior executives to redress apparent imbalances (e.g., add managerial rigor to unbridled creativity in a fast growth company; to set up autonomous innovation “pods’ to facilitate entrepreneurs).

Does Size of Firm Matter? Are big companies the best catalysts of innovation, or are small ones better? Although it is conventional to believe that little start-ups are creative and big firms are slow and bureaucratic, a recent report on “scale and innovation’ by the Progressive Policy Institute (2011) concludes that today’s economy favors big companies over small ones. Three main reasons are given for this. First, economic growth is increasingly driven by large eco-systems such as the ones that cluster around Apple’s iPhone or Google’s Android operating system. These ecosystems need to be managed by a core company that has the scale and skills to provide technological leadership. Second, globalization puts more of a premium on size than ever before. Third, many of the most important challenges for innovators involve vast systems, such as education or health care, or giant problems, such as global warming. To make a serious change to a complex system, you often have to be big. Moreover, big companies can leverage advantages – such as access to talent and R&D spend – while getting better at avoiding bureaucratic stagnation through flattening their hierarchies and opening themselves up to ideas from elsewhere (for example, Procter & Gamble gets most of its ideas from outside its own walls).

But sometimes the best ideas start small, spread widely and then transform entire systems. Facebook started as a way for students at a single university to keep in touch. Now it has almost a billion users! As *The Economist* (2011) argues, an economy needs both small and big firms. Indeed, what matters is not so much whether companies are big or small, but whether they grow. Progress comes from high growth companies. The best ones can take a good idea and use it to transform themselves from embryos into giants in a few years, as Amazon and Google have. The key to promoting innovation lies in allowing vigorous new companies to grow big, and inefficient old ones to die.

Growing attention is being spent on inculcating the entrepreneurial spirit into firms both large and small. As far back as 1996, Andy Grove – the legendary leader of Intel – called for his company to be an “agile giant” by predicting and exploiting Strategic Inflection Points where massive and potentially unforeseen change rapidly shifts the rules of the prevailing business system. Samuel Palmisano, until recently CEO of IBM, has provided a text book case of how to drive change in a big company by moving the emphasis from selling customers computers and software to helping them use technology to solve business challenges in marketing, procurement and manufacturing. Richard Branson, 40 years after the launch of Virgin Records and still going strong, was recently quoted (2012):

> “The challenge as you get bigger is not to become so big that you become just like another one of the big carriers. Trying to stay small while getting bigger is very important. Any company that has more than 250 people in a building is in danger of starting to become impersonal. In an ideal world, 150 people are the most that should be working in one building and one organization, so that everyone knows each other and knows their Christian names.”

Sir George Buckley, the head of 3M, a big firm with a 109-year history of innovation, argues that companies like his can combine the virtues of creativity and scale. 3M likes to conduct lots of small experiments, just like a start-up. But it can also mix technologies from a wide range of areas and, if an idea catches fire, summon up vast resources to feed the flames. At the other end of the spectrum, the German *Mittlestand* (small and medium-sized family firms) prosper through the identification of generally unglamorous niche markets where their unique expertise provides well-engineered, reliable, high value-added products and services. Much of their success relies on an enviable network of relationships across the value chain. German universities work hand in glove with researchers at local firms. Suppliers cluster around big manufacturers, owner-managers rub shoulders with workers, and refined supply chains and distribution networks allow *Mittlestand* companies to reach far-flung markets quickly and efficiently.

These examples leave us with an interesting question – given a specific organizational context why do some manager's act entrepreneurially and others don't? Mair (2001) defines entrepreneurial behavior (EB) as:

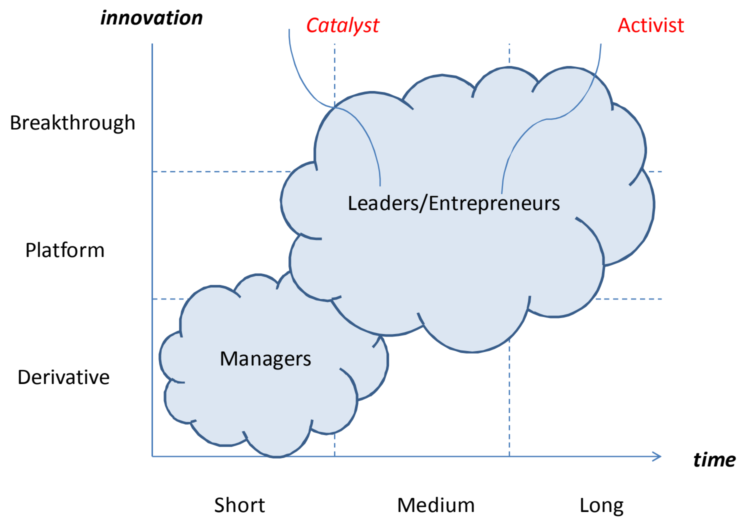
> " … a set of activities and practices by which individuals at multiple levels autonomously generate and use innovative resource combinations to identify and pursue opportunities."

This is not an easy pursuit if we view the successful organization as comprising a spectrum of activities ranging from independent/autonomous (e.g., the search for growth through both sustaining and disruptive innovation) to integrative/cooperative behavior where the emphasis is on the status quo, risk reduction and efficiency (Ghoshal and Bartlett, 1994). This brings us full circle to the *ambidextrous organization* where entrepreneurially oriented executives need to continuously balance "exploration" of new resource combinations with "exploitation" of existing organizational capabilities. Should we therefore distinguish between entrepreneurial and administrative management techniques or search to integrate and combine both entrepreneurial and administrative approaches by identifying and empowering personnel with entrepreneurial proclivities? This latter goal may be difficult to achieve if we are to believe Richard Branson (2012) who opines that "It's very rare to get an entrepreneur and a manager rolled into one." In addition, Birkinshaw (1997) refers to the "entrepreneurial challenge" as to "move from an idea to a commitment of resource", while the "managerial challenge" consists of making "resultant business activity profitable." We would like to introduce a methodology – the MEL Index – that allows firms to assess the balance of skills they possess within the manager, leader and entrepreneur archetypes and then diagnose requirements for future sustainability.

Introducing the MEL Index

Our discussion to date has revolved around the functions of the manager and entrepreneur within the organization. To this we must add the moderating role of the "leader." A recent McKinsey study (Leslie, 2006) posed the question: "Which combination of management practices are the most effective at creating high levels of near-term organizational performance and longer-term organizational health? It found that the best case pointed to accountability, clear vision setting, and a strong culture as the main foundations of a high-performing company. It noted: "Senior executives must provide for clear roles within a structure matched to the needs of the business (accountability), articulate a compelling vision of the future (direction), and develop an environment that encourages openness, trust, and challenge (culture)." These findings are germane to our view that three archetypes of leadership exist: Managers, Entrepreneurs ad Leaders. We see "accountability" as mainly a managerial function, requiring the ability to guide present and future activities. "Direction" is very much a leadership role that maps the future and prepares the organization for change. The "culture" dimension can be thought to embrace – at least in part – an entrepreneurial element. Here trust and openness stimulate the search for new product and process opportunities. We can picture the differential roles of managers, leaders and entrepreneurs in pursuing innovation strategies over varying time horizons. It is thought that leaders play more of a catalyst role in the identification of platform and breakthrough (rather than incremental) projects, creating the climate for the entrepreneur to flourish as an active and empowered contributor. A much more detailed framework surrounding the roles of managers, leaders and entrepreneurs in sustaining innovation is contained in Dover and Dierk (2010).

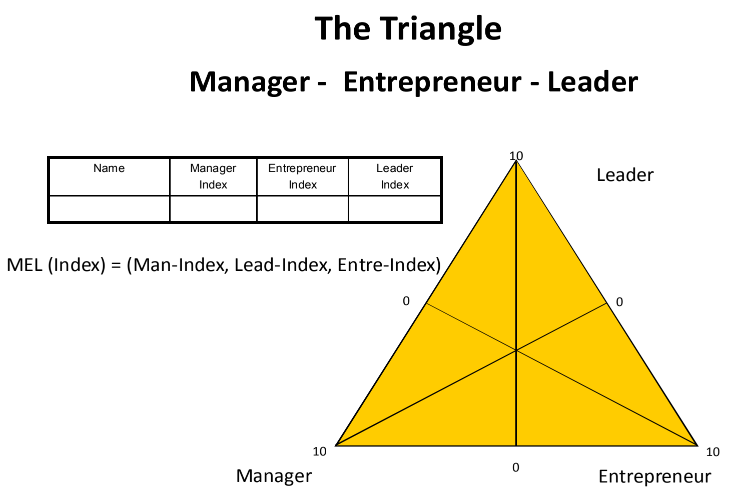
Figure 1: Archetype Roles in Innovation



Measuring MEL

How best to measure the managerial, leadership and entrepreneurial capabilities of key personnel? We chose to use a triangle (see Figure 2) to visually represent executive perceptions of individual and organizational competencies on the three archetypes. Respondents are asked “Please take a look at the triangle. We would like you to rank yourself/colleague/company on the manager, entrepreneur and leader dimensions. On each of the dimensions allocate yourself/your colleague/your company a score between 0 and 10, with 0 equaling no capabilities and 10 indicating truly outstanding skills.”

Figure 2: The MEL-Triangle



In addition, we collect considerable open-ended information from participants. This includes a description of the skills required for their current job, perceptions of the generic roles and responsibilities of managers, entrepreneurs and leaders as well as verbatim comments on their own and their company's capabilities on these archetypes. Typically data collection requires individual face-to-face interviews (although we have developed an on-line version of the measurement instrument), each lasting 45 to 60 minutes. We are building a growing data base of findings which allows us to observe the impact on MEL roles of such variables as cross-cultural differences (e.g., German vs. US forms), size of organization (e.g., SME vs. multinational) and ownership (family vs. publicly owned). We will present selected findings from companies of varying size to indicate the diagnostic insight of the MEL instrument.

Selected MEL Findings

German Automotive Supplier

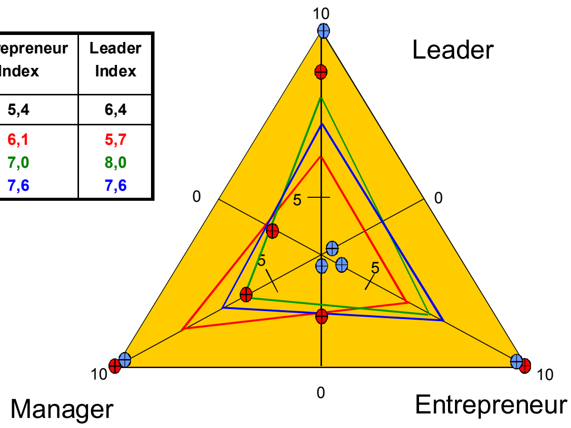
The company is a more than 200 year-old family-owned and run Germany-based supplier to the automotive industry with current customers in Europe, Asia and the Americas and production facilities in Germany, France, Spain, UK, Brazil and the USA. Their revenue was about 450 Mio € in 2008 while employing nearly 4000 employees worldwide. At the time, they had an ambitious revenue growth goal of about 10% per year. The Senior Management group of the company had the following structure. The two managing directors, who also had the titles of CEO and CFO, were legally the sole management team of the company. The CEO was a family member who had taken over from his father in 2003, the latter having run the company for some 25 years. The operational management team contained another 5 members including the heads of production, research and development and HR. A broader management group -- including the operational management team -- of 18 people was formed to contain all country heads and some corporate functions.

To help reach their growth targets, the company launched a leadership development program to be attended by senior and mid-level managers. It was during this program that the MEL-Index was administered to all managers present. A key initial observation showed considerable deviation between the self evaluations and the peer evaluations of the two managing directors. In particular, the CEO saw himself as a leader, while his peers saw him as much more of a manager. This was a serious concern, because the general expectation of a CEO is for him/her to be a strong leader. But in this case, other members of the operational management team expressed a perceived gap between expectation and their experienced reality. As the CEO saw himself as a strong leader, he felt little need to change. However, when asked to explain their ratings, the management team believed that the major feature of the CEO's leadership style was a lot of day by day micromanagement.

Figure 3: MEL-Ratings for German Automobile Supplier CEO

CEO

Name	Manager Index	Entrepreneur Index	Leader Index
Avg Top	7,2	5,4	6,4
Peer Top	8,0	6,1	5,7
Self	6,0	7,0	8,0
Middle Man.	6,8	7,6	7,6



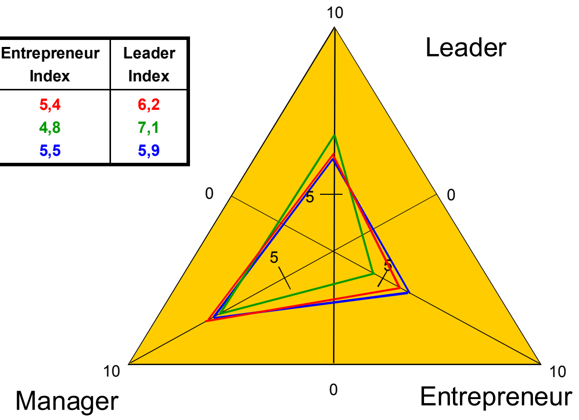
Similar perceived self and peer rating differences were experienced for the CFO and CTO (head of R&D) – both saw themselves as strong leaders while their direct reports emphasized their managerial skills. Perhaps of greater concern was that the weakest dimension on individual ratings for the management team was for entrepreneur skills. Does this imply a lack of entrepreneurial mindset in the upper reaches of the company?

It materialized that several high potential opportunities for platform innovation had been rejected by the top team. Indeed, the middle manager group described a rigid, cautious, risk-averse development approach as the core of the innovation process in the company. Sales and financial results were declining. Consequently, the CEO and the CFO were asked to leave and a new CEO and CFO appointed. This move was initiated by the head of the advisory board, a family member and the previous CEO, out of concern for the company's health and progress and with the view to generating a more future oriented perspective. Of course, our MEL findings about the shortcomings of the CEO and the CFO did not directly precipitate their leaving, but it did draw to the attention of others the need for more leader-and entrepreneur-capabilities at the top of this company. For a more detailed description of the MEL findings for the German Automobile Supplier see Dover and Dierk (2009).

Figure 4: MEL Ratings of Top Management Team at German Automobile Supplier

Top Team

Name	Manager Index	Entrepreneur Index	Leader Index
TOP Peer Avg	7,7	5,4	6,2
TOP Self Avg	7,4	4,8	7,1
TOP Middle Man.	7,3	5,5	5,9



German High Technology Connector Company

This family owned company operates globally in the industrial electro-technical industry, making connectors for a wide range of applications. Their current revenue is €1.5 billion with an annual average growth rate over the past few years in excess of 15%, a favourable rate compared to major competitors. To date we have applied the MEL tool to 2 of the companies 5 business units. Although we have individual MEL profiles for the senior management team, for the purpose of this article we will briefly report only the aggregate findings for the BU's. Detailed findings from the MEL application to this company can be found in a forthcoming article (Dierk and Dover, 2012).

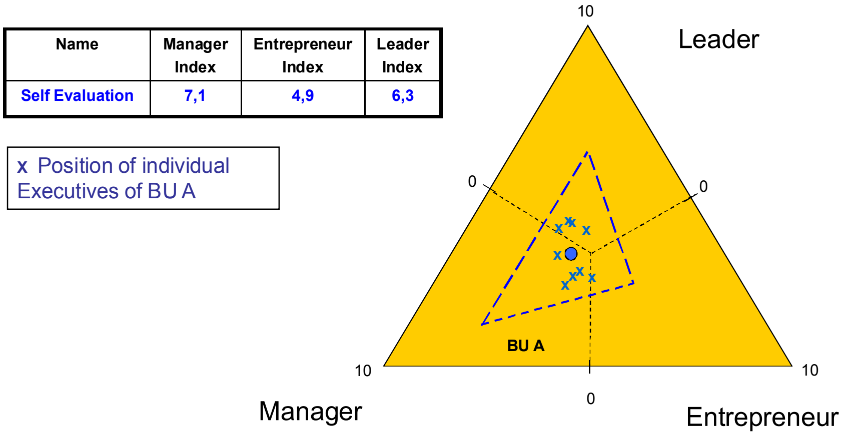
BU A is the cash cow of the company, with a very low sales price and high production volume. Products are mainly mature and mechanical that can be considered commoditized. As a consequence, BU A needs to be highly efficient in its processes. While finding market opportunities for mature products requires some entrepreneurial capability (at least to pursue incremental innovation), the pursuit of efficiency mainly demands considerable managerial skills.

The self evaluation of the executives of BU A reveals a fairly strong managerial capability. This is consistent with the core needs of a largely mature business. A question, of course, is where to find the entrepreneurial strength to pursue possible growth opportunities in new markets. Previous work by the authors indicated that it is difficult for individuals or organizational units to significantly shift from one MEL archetype to another, especially between the Manager and Entrepreneur categories. With this in mind, it was thought better to recruit entrepreneurial talent from outside rather than try to convert/train existing personnel. Such a mixed strategy (an emphasis on cost economies while extending the product life cycle by targeting largely incremental innovation in selected markets) allows them to remain the cash cow of the company yet with comparatively high margins.

Figure 5: MEL Ratings for BU A

BU A Self Evaluation

Name	Manager Index	Entrepreneur Index	Leader Index
Self Evaluation	7,1	4,9	6,3



BU B is active in a technologically sophisticated electronic business area where the margins are much higher than in BU A. The markets are growing in all geographic locations. The main challenge for BU B is continued profitable growth at above the corporate and industry average which makes particular demands on strong leadership and entrepreneurial capabilities.

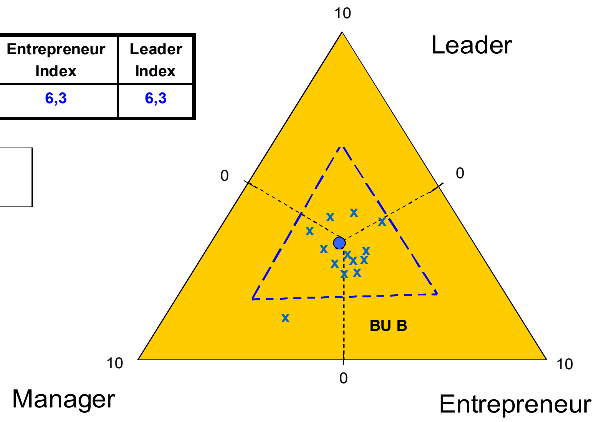
Figure 6 shows a balance of the three MEL archetypes in the executive team of BU B. The scatter plot shows executives who are strong in manager-orientation, others who have entrepreneur-orientation and finally those with leader-orientation. An earlier peer evaluation revealed the BU Head with sound entrepreneurial proclivities. He faces a challenge to fill future positions with appropriate personnel, given the aggressive growth goals. Since conducting our research, BU B has managed to exceed its growth targets. This has been accomplished, in part, by some reorganization in which increased hiring emphasis was placed on Leader and Entrepreneur talents.

Figure 6: MEL Ratings for BU

BU B Self Evaluation

Name	Manager Index	Entrepreneur Index	Leader Index
Self Evaluation	6,7	6,3	6,3

x Position of individual Executives of BU B



B

North American Oil Company

This privately owned oil and gas refining and distribution company has revenues of around $7b, operates about 750 retail locations in NE Canada and New England and employs approximately 7,000 people. MEL analysis revealed the parent company to be managerially strong (average senior executive rating of 8) but entrepreneurially challenged (4.5). An innovative retailing idea (discounting petrol prices through a grocery loyalty program) had limped along unsuccessfully within the company for two or three years. It was then spun-off as a separate operating company with startling positive impact. The new company (initially 40 employees but growing quickly) had strong entrepreneurial traits (8) with – in the early days – less well-developed managerial capabilities (6). Moreover, the CEO was seen as an outstanding leader (9) and entrepreneur (9). As he noted:

> "This company is incredibly entrepreneurial and is driven by entrepreneurial questions. How can we give customers free petrol? How can we disrupt an industry as large as the oil business? Once you have one good idea, many others occur. The trick is how to exploit them."

US Mechanical and Electrical Construction Company

This Fortune 500 company has annual revenues of nearly $6b and operating income of about $200m. It is thought to have a truly entrepreneurial culture, benefiting enormously from a charismatic CEO and from a visionary yet tough COO. Yet the company faces two potentially conflicting problems. As the company grows towards $10b can this entrepreneurial spirit be maintained? On the other hand, an impressive growth program – fuelled, in large part, by an aggressive acquisition strategy – has resulted in strong overall entrepreneur (9) and leader (8) capacity but comparatively weak (5) manager skills. Entrepreneurial firms often grow too quickly to build effective management processes and must pause occasionally to implement appropriate organizational structures. For example, here the COO was seen by peers as a compelling leader (9.5) and sound entrepreneur (7.5) but only as a modest manager (5.5). He indicated his future development plans as follows:

> "I intend to be less quick to judgment. I have always had a low tolerance for non-leaders. I must appreciate the need for balance and use, for example, the CFO (a very process oriented individual) as a counterweight."

Some Final Thoughts

We have provided brief insight into MEL practices at four very different organizations. All faced the challenge of sustaining growth in competitive and volatile environments. We can draw some tentative findings from these experiences:

- While size may influence the ability of firm's to be "fast and flexible," – for example, the need for the North American oil company to create a separate operating company to exploit an innovative, "out-of-the-box" idea – real progress comes from an unerring emphasis on growth.
- Growth can come from "exploiting" the present or "exploring" the future. We argue strongly that the differential skills of managers, entrepreneurs and leaders are required at varying stages of the growth cycle. Hence the predominant need was for strong managerial capabilities within the mature, cash cow business unit in the German connector company. On the other hand, leadership and entrepreneurial skills were in demand within the technologically challenging, high growth BU within the same company.
- Because markets are dynamic, there is a continuous need to adjust the balance of managerial, entrepreneurial and leadership talent within the organization. For instance, the US mechanical and electrical construction company had reached a level of growth where strong leadership and entrepreneurial spirit were not enough and the discipline of better and more structured management needed to be introduced.
- In the search for balance between manager, leader and entrepreneur capabilities, we must be careful to measure these skills as objectively as possible. We noted in the German automotive supplier that although the CEO saw himself as a capable leader, his peers believed him to be principally a micro-manager with limited leadership vision. The firm's innovative fortunes only improved with the replacement of the CEO and other C-Suite executives.

We continue to develop the MEL-Index with the aim of providing a clear picture of the capabilities available within the senior management team along with a diagnostic follow-up on how to improve the balance of skills required within various growth scenarios. Although we will build further conceptual and methodological rigor into the tool, we have been gratified with how participant companies have become involved and energized by the project, their willingness to openly and extensively discuss the issues of MEL archetypes, and their enthusiasm to use the outputs from the tool to contribute to company innovation strategy.

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