The Differences between "real" Entrepreneurs and Corporate Executives

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Abstract

The two authors have developed and tested the MEL-Index, an assessment tool that measures the individual and organizational capabilities of executives and organizational entities in a corporate setting. This MEL-index follows the observation that there are three archetypes of executives, the manager, the entrepreneur and the leader. In recent studies (Dover, Dierk in JBS .....) we showed the impact and influence of these archetypes for innovation and sustainability in corporations. This paper presents research that was done with German "real" entrepreneurs, which means entrepreneurs who run their own company. All of these companies were small and operate in very different industries like agriculture, food, IT, machine building or laundry service. The main question behind this research was : Is there a difference of capabilities and strength of "real" entrepreneurs compared to those executives with entrepreneurial functions in a corporation. The assumption was that there is a difference mainly in the archetype of entrepreneur. We interviewed all of these entrepreneurs in a one hour face to face interview. We asked them to do a self evaluation of their archetype strength, a self evaluation of their company and fill in a 36 question inventory which gives a "calculated" Mel-Index. This was then compared with the self evaluation MEL-Index.The findings were quite surprising. First of all we found very different motivations why these people became an entrepreneur. No one claimed to have had an idea which they wanted to be realized with persistence, creativity and passion. Some of them became an entrepreneur to demonstrate to others (family, friends, community, banks,...) that they were able to be successful although people not necessarily believed in them. So in a way the motivation was a compensation of inferiority. Some others said that their motivation was "what this entrepreneur can do, I can do it too". So in a way it was a strong self confidence. The second finding was that they felt a very strong responsibility for their employees and that they were willing to sacrifice parts of their profit for the well being and long term employment of their employees. The third finding regarding MEL-Index was that these entrepreneurs were very balanced in their strength of entrepreneur- and leader-archetype. This is a major difference to executives in corporation were you do not necessarily have this balance. In our past studies of executives in larger corporations we had entrepreneurial executives with less leader-strength and vice versa. In a corporate setting you may compensate your weakness in one of the archetypes by surrounding yourself with one or more people who have the strength that is missing. It seems that you need this balance of entrepreneur-strength and leader-strength to become a successful entrepreneur in a sustainable company.

Keywords: Managers, leaders, entrepreneurs, innovation, ambidexterity, corporate entrepreneurs

Introduction

The continued sustainability of companies depends on effective management of the present combined with imaginative ideas for the future. On the one hand, firms need to optimize processes, organizational structure, staffing procedures and the like, to be faster, more cost efficient and responsive to current markets. Such focus allows success in the present and near future. But this does not at all ensure continuity in the longer run. In order to achieve this, companies must also regularly assess their vision, encourage innovation, be willing to adjust or change strategies, products and markets and more. In order then to sustain both short and long term futures companies must work simultaneously on doing the same things better while stimulating and responding to change (doing things differently). A term increasingly used for these phenomena is the *ambidextrous organization* (O'Reilly and Tushman, 2004). It may well be that the emphasis shifts from current optimization to future change management and backwards like a pendulum, depending on such factors as the situation at the individual company, market forces, and the socio-economic environment.

Many organizations struggle to attain this delicate balance with the result that otherwise adept companies often fail in rapidly changing markets. Following many years of observing and working with both SME's and large international corporations, the authors became fascinated by the concept of the *ambidextrous organization* and by the formal and informal roles played by various personnel in longitudinally guiding the firm. The decision to commence this applied multinational research project started with the *a priori* view that strategic and operational success depends, in large part, on the combination of skills evident in the leadership team of a firm. In particular, we became interested in the integrative impact of three types of personnel – managers, entrepreneurs and leaders – in the sustainable fortunes of the organization.

This basic conceptual building block for our research – that three major decision making archetypes exist – receives some support from the business literature (e.g., Kotter, 2001; Thornberry, 2006). Initial evaluation of this secondary research suggests that managers, entrepreneurs and leaders bring different skills and capabilities to their company roles. We have tentatively summarized them as *focusing on current complexity (Manager), focusing on change (Leader), and focusing on opportunities (Entrepreneur).* Figure 1 summarizes the archetypes and suggests that they exhibit areas of interaction. The extent of this interaction is explored in the research project.

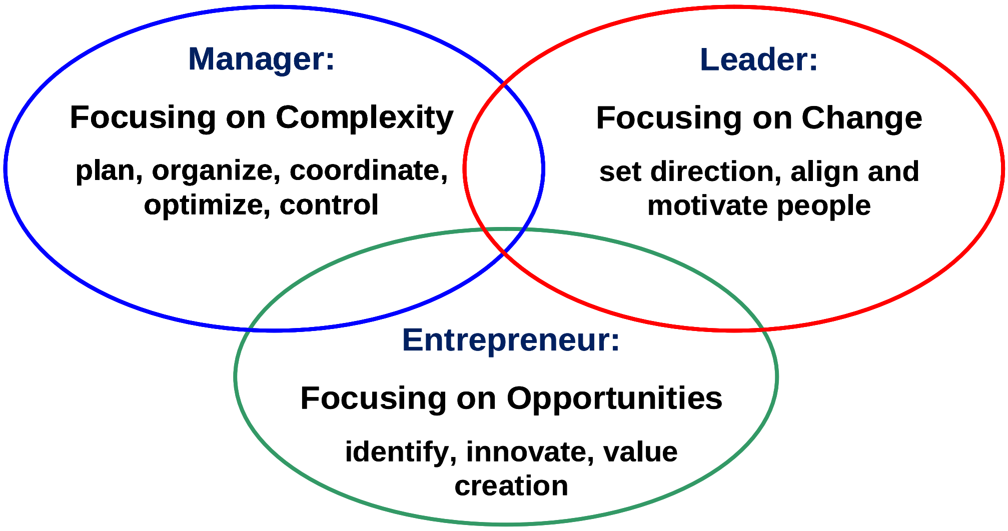

Figure 1 : Three Archetypes : Managers, Entrepreneurs and Leaders

While the management literature is quite well represented by work on the similarities and differences between leaders and managers (e.g., Zaleznik, 1992) – and has started to address, if somewhat less completely, the associated role of corporate entrepreneurs (e.g., Ireland et al., 2006) – it is largely silent on the *combination* of skills required of executives to guide the short and long term development of the organization. This led us to muse on a number of intriguing questions:

> a) what is the weighting of these managerial, entrepreneurial and leadership practices that result in optimal short and long term corporate performance? How are these weights impacted by contextual variables such as industry maturity, technological intensity and cultural norms?
>
> b) if different kind of capabilities are required to simultaneously work on both short and long term initiatives, how can they be balanced to ensure smooth operations and minimize conflict? How does attaining (or failing to attain) this skill balance impact the innovation profile of the organization?

These broad questions were then translated into the following specific research goals:

1. To develop and validate a measurement instrument (the MEL-Index) that will allow an organization to assess the managerial, entrepreneurial and leadership capabilities of its key personnel as well as for the company as a whole.

2. To correlate MEL-Index profiles with company performance metrics (profitability, market share, customer loyalty, etc.) and perceived level of innovation activity.

3. To offer prescriptive guidance to corporations on achieving an appropriate balance between managerial, entrepreneurial and leadership capabilities.

This paper reports on an extensive pilot study carried out to better understand the perceptions of European and American executives on the role and required skills of the manager, entrepreneur and leader. It also assesses how these archetypes can best be measured and interpreted, both individually and organizationally.

Building a Conceptual Framework

How can the collective activities of managers, entrepreneurs and leaders best sustain innovation within corporations? To help classify innovation, we adopted a typology of commercial development projects devised by Wheelwright and Clark (1992). Each of their three project types requires a unique combination of development resources and management styles.

Derivative projects (often referred to as *incremental innovation*) range from cost-reduced versions of existing products to add-ons or enhancements for an existing production process. In both cases, minimal changes are required in ongoing management procedures. *Breakthrough projects* (or *radical innovation*) are at the other end of the development spectrum because they involve significant changes to existing products and processes. Here executives need to give development teams considerable latitude in designing new processes, rather than force them to work with existing plant and equipment, operating techniques, or supplier networks. *Platform projects* are in the middle of the development spectrum and entail more product and/or process changes than derivatives, but don't introduce the untried new technologies or materials that breakthrough products do. Because of the extent of changes involved, successful platforms require considerable upfront planning and the involvement of not only engineering but the interaction of marketing, manufacturing, senior management and others.

Platforms, in particular, offer considerable competitive leverage and the potential to increase market penetration, yet many companies systematically under-invest in them. The reasons vary, but we believe that managers over-emphasize the importance of derivatives as they strive to optimize the efficiency of current practices. Although the desired mix of projects will vary by industry type and market condition, an allocation of development resources of around 50% to new platform growth is advocated (Laurie et al., 2006) This is not the current allocation in most organizations where most investment is regularly earmarked for derivative improvements.

It is helpful to diagrammatically show our thinking so far. If we represent "*innovation type"* and "*time"* on the axes, 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 projects, creating the climate for the entrepreneur to flourish as an activist.

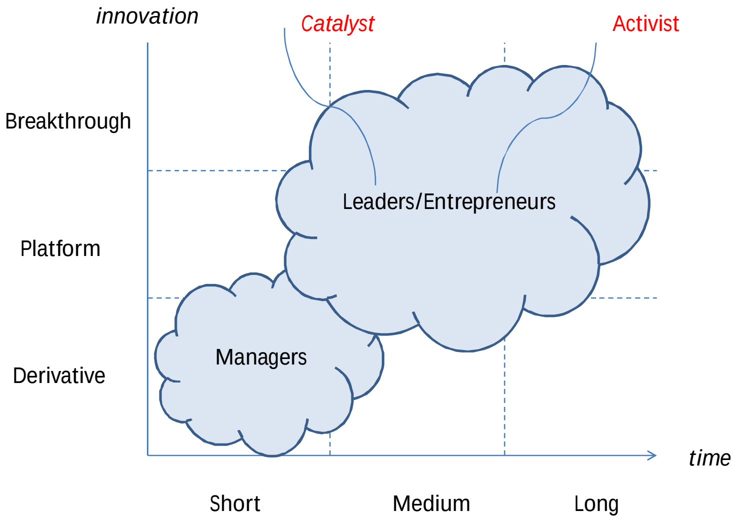

Figure 2: Archetype Roles in Innovation

An additional dimension in the operation of the *ambidextrous organization* is that of *perceived risk.* Managers, driven by short term objectives and clear metrics, tend to be risk averse. Entrepreneurs, in their obsessive search for opportunities, strongly reflect risk takers. Leaders, it would seem, need to take a middle course. They must show, through vision and future orientation, a propensity for risk. At the same time, they must carefully search for a balanced portfolio of innovation opportunities. This requires substantial due diligence with the aim of risk minimization. These traits can be represented as follows:

Improve Efficiency → *Engender/Facilitate Change* → *Create Opportunities; Activate Change*

←→

Managers	**Leaders**	**Entrepreneurs**
Risk Averse	*Risk Taker + Risk Minimizer*	*Risk Taker*

Figure 3: Archetype Risk Perspective

The significance of these variables is impacted by the moderating influence of business conditions (or “zeitgeist”) facing a decision maker at any point in time. It appears that context matters. Mayo and Nohria (2005) noted that “entrepreneurs were uniquely skilled at sensing emerging opportunities or the potential of nascent technologies and through perseverance and determination build successful new enterprises.” Adding to these macro-factors, we are particularly interested in measuring the impact of corporate (e.g., privately vs. publicly owned) and national (e.g., European vs. US) culture, as well as stage of the industry life cycle, as contextual variables that can influence the focus of innovation activity.

Measuring MEL

The research to date has been conducted with a) senior management, including Board members, and b) “high potential” personnel who are seen as the “future of the company.” These were thought to be essential players in the *ambidextrous organization.* 20 extensive, face-to-face interviews, each lasting 45 to 60 minutes, were conducted in 5 large, multinational corporations (2 European, 3 North America). 54 briefer interviews were carried out with two German SMEs.

A specific project goal was to develop and validate a measurement instrument (the MEL-Index) that allows an organization to assess the managerial, leadership and entrepreneurial capabilities of its key personnel. We decided to use a triangle (see Figure 4) to visually represent executive perceptions of individual and organizational competencies on the three archetypes. Respondents were asked “Please take a look at the triangle. We would like you to rank yourself/company on the *manager, entrepreneur and leader* dimensions. On each of the dimensions allocate yourself/your company a score between 0 and 10, with 0 equaling no capabilities and 10 indicating truly outstanding skills.” In addition, we collected considerable open-ended information from the participants. This included a description of their current job, perceptions of the generic roles and responsibilities on managers, entrepreneurs and leaders as well as verbatim comments on their own and their company’s capabilities on these archetypes.

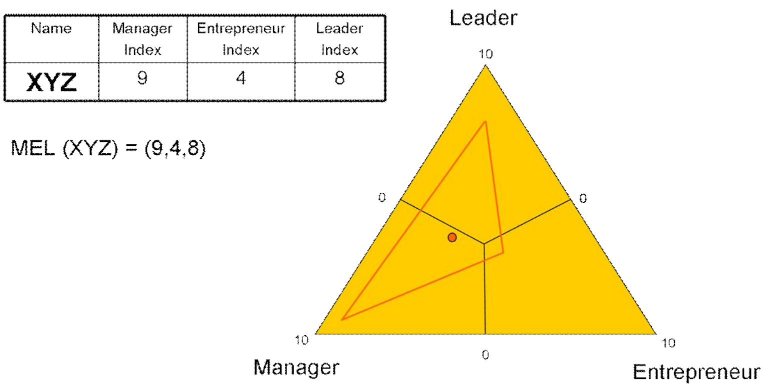

Figure 4: The MEL - Triangle

As the research is exploratory in nature we employed both a case study methodology and a convenience based approach to sample selection. Although the sample size is small, we found that all participants were highly involved in the study, were very willing to openly discuss the issues, and were keen to be informed of the results on completion of the project. Indeed, we had trouble at times closing the interview, so intrigued were participants in analyzing their own and their companies MEL capabilities!

"real" Entrepreneurs

After having done some research with corporate executives in various companies, i.e. a Midcap company of the German "Mittelstand" with about 100 Mio € revenue and 400 employees or a larger company with 1,6 bn € revenue and 12,000 employees we found that just a few of the assessed corporate executives (about 100 in total) claim to be strong entrepreneurs. Some more of them, but still very few, claim to be stronger leaders, who in our model could act as facilitators for corporate entrepreneurs. So the question came up, how can these companies be innovative or entrepreneurial if only just very few of their executives see themselves as entrepreneurial or strong leaders. On the other hand there are lots of small and medium size companies around (see the German "Mittelstand") which are very entrepreneurial. The question to be answered now is : Are "real" entrepreneurs different from corporate executives in terms of our archetype model and if so, how are they different ? We define a "real" entrepreneur as someone who runs and owns a company. He may have founded this company or may have taken it over from a preowner of from a family member. Overall he or she is the person in charges and is liable for the company with his or her own money.

Sample of "real" Entrepreneurs

So far we have conducted interviews with 7 German entrepreneurs which are all known personally to one of the authors. They operate in a wide range of industries like machine building, laundary service, internet activities, food industry and agriculture. Their size in revenue varies from 137 mio € to 2,2 Mio € and from 20 to 700 employees. Four of them operate regionally or domestically, while the other three do business globally.

We conducted a one hour face-to-face interview with all of these 7 entrepreneurs and asked them to evaluate themselves and their company according to our three archetype model. In addition to this we asked them to fill in a 36-question-based inventory directly after the face-to-face interview which results in an additional MEL-index perspective. They were asked to do it spontaneously and it took about 5 to 10 minutes.

It is our intension to expand our sample of "real" entrepreneurs to some US-based entrepreneurs in the next couple of months.

MEL - Findings

All of the interviewed entrepreneurs found our three-archetype-model with the MEL-Index very intuitive and easy to understand. One of them even indicated after the interview that (after ten years of existence of his company) he now understands much better what he and his company needs to growth and sustain for the future. All but one of them (he is the same one as above) indicated in their self evaluation that the are strong entrepreneurs.

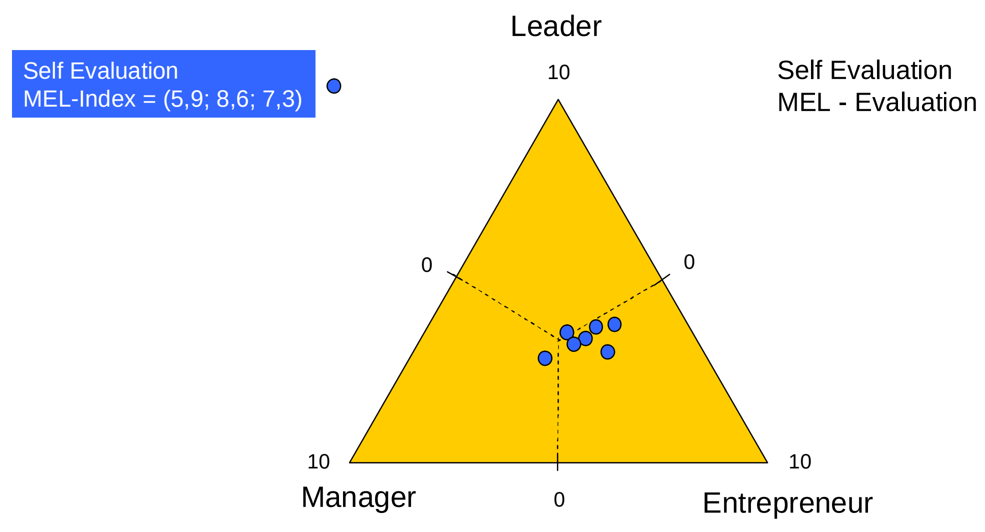

Figure 5 : Self evaluation of entrepreneurs

This in itself is not really surprising because all of them are "real" entrepreneurs and see themselves to be "real" entrepreneurs. But if you compare this with a sample of similar size of executive board members of a family driven and owned company in the automotive supplier industry shows the difference.

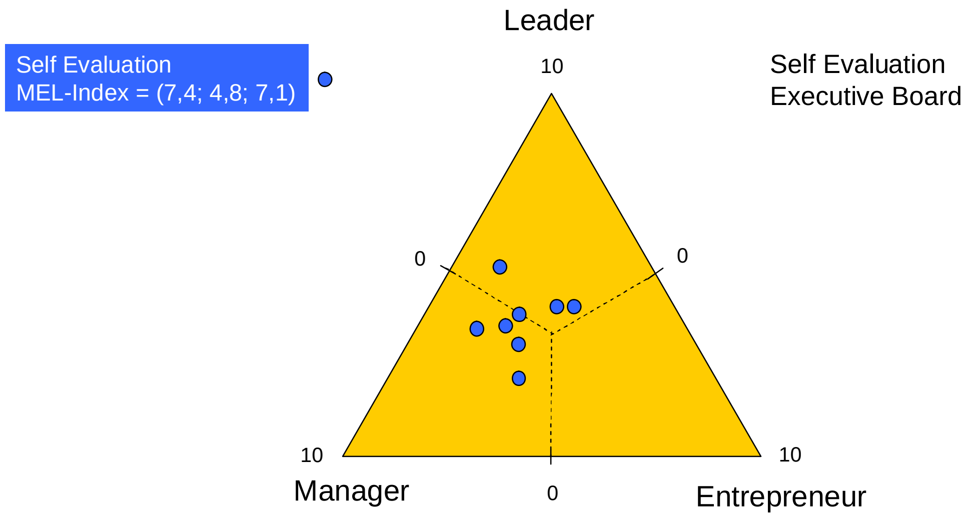

Figure 5 : Self evaluation of members of executive board

Most of these executives see themselves as strong managers, some of them as strong leaders, but none of them as a strong entrepreneur. Although this is just one sample, we found this in nearly all of the companies in which we applied our MEL-Index to executives of various levels.

A very interesting result with the "real" entrepreneurs is the outcome of our questionnaire of 36 questions. Just one of them came out as a strong entrepreneur, all the others were assessed to be strong leaders, even the one who saw himself as a strong manager.

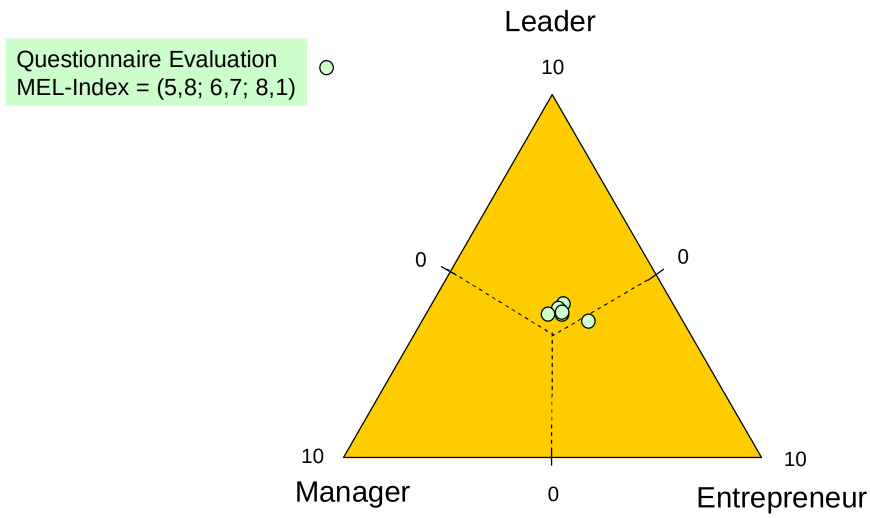

Figure 6 : Questionnaire Evaluation of Entrepreneurs

This result indicates that "real" entrepreneurs are not only strong entrepreneurs but also strong leaders. This in itself is not very surprising because to be a successful entrepreneur you need to enthuse people for your idea and for your vision of the future. A successful entrepreneur needs to have a sound feeling for the market and the need of potential customers as well as a for his or her employees and stakeholders.

Except one of the interviewed entrepreneurs evaluated themselves as a weaker manager than entrepreneur or leader. This is very much in line with our MEL-model, in which it is very rare that a strong entrepreneur is also a strong manager. The result of our questionnaire supports his assumption.

A very interesting result of our investigation is the fact that 5 out of 7 of our entrepreneurs see the company in total as entrepreneurial as themselves but much more managerial as themselves. Obviously these entrepreneurs surround themselves with employees that have stronger manager skills to balance their own entrepreneurial preference.

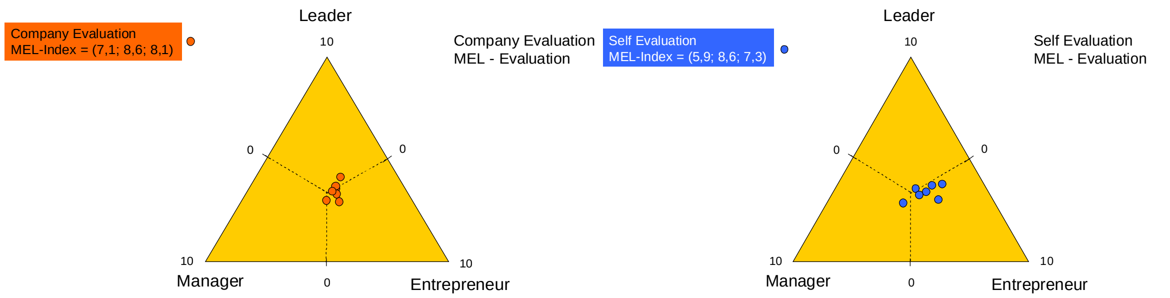

Figure 7 : Comparison Company evaluation and self evaluation

MEL Index and Innovation

In all companies of our entrepreneur sample innovation has been seen by them as the main driver for long term success. Innovation takes place in products, services and processes. The most influential person behind these innovations is the entrepreneur itself supported by technical experts with lots of experience within the company. Figure 5 above shows that this very much corresponds with their entrepreneurial strength. If we compare this with the automotive supplier company already mentioned and have a look to the peer and subordinate evaluation of the executive board members than you see a dramatic difference to our sample of entrepreneurs :

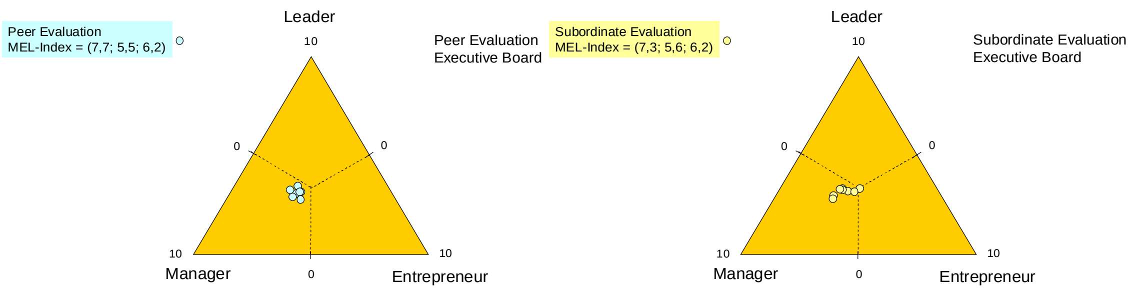

Figure 8 : Peer and Subordinate Evaluation of Executive board

Noone of the executive board members sees himself or are seen by their peers or by their subordinates which are middle managers reporting to them as strong entrepreneurs. This includes the CEO and the CTO, head of development. He turned out to be a strong manager which is not what you need as a driver of innovation. The immediate question of course is : Who in this company is the driver or at least facilitator for innovation ? Consequently this company had a dramatic lack of innovative new products and services and shortly after our investigation turned into deep trouble. In order to survive they had to sell all parts of the company outside of Germany and the CEO and the CFO were asked to leave the company. This turnaround was initiated by a family member who was the head of the advisory board. His sun was the CEO. He installed new executives as CEO and CFO who are not part of the family - and this was done after 225 years of a family driven business and after the 8th generation of family members running the company.

Conclusion : To maintain a healthy company with a long term growth and profit perspective you need to have at least some people in your company with a strong entrepreneurial skill- and mindset in order to drive or facilitate innovation. If this is not the case you need to find those people outside the company and hire them. Otherwise the company will go into hard times.

Other findings

Literature (i.e. Smilor et al 1996) about entrepreneurs and their intrinsic motivation to become one suggests that the most important driver for a successful entrepreneur is a great idea with a sound benefit for potential customers. In order to achieve his / her goals and to start or run a company an entrepreneur needs persistence, passion, self esteem and much more. In our interviews with the 7 entrepreneurs we found all of the attitudes that literature describes except this great idea that they want to implement. in our sample of entrepreneurs one of them really created a new company in the Internet Business. When he started his company in 1996 he wanted to do "something with math and computers" without having a precise idea about the future of the internet and possible products or services at that time. His father was self employed and "was always available at home, because he worked from home". This was the role model when he started his company. It turned out the he had to work much more and not from home, when his company started to grow over time. Now his revenue is about 1 mio € with 20 employees.

Another entrepreneur, an engineer by education and passion, worked for years as a senior executive in a midzise family driven company where at last he was the head of a business unit in the agriculture machine industry. He left the company after some struggle with the owner family and started his own business by buying an existing company that produces power generators for sailing boats, trains and military applications. He invested into this company because he wanted to run a company based on technical products that meets his demands and desire as an engineer and had a potential for growth. He took over in 2004 with a revenue of 11 mio € and grew his company to 24 mio € of revenue and 110 employees. Besides his motivation for a technically based company he wanted to work "without a suit and a tie" and said" I am at the top and not in a sandwich position".

The other 5 entrepreneurs took over from their family either father of brother. One of these 5 runs very successfully a laundary service company with restaurants, hospitals, hotels and private individuals as customers. To date is the largest company in his industry and the geografic region in which he does business. The company exists since 55 years and he was prepared by his parents to take over when time comes. At the age of 10 one of his teachers told him that he will never make it at all. His internal reaction was "I will show him and all the others the opposite". This turned out to be one of his main driver when he took over from his father in 1978. The other one was based in the laundary service industry which overall has a bad reputation. By running his business successfully he wanted to show his neighbours and his entire community that laundary service business is a business with high reputation and a good perspective of growth and by having success he wanted to communicate with his peer entrepreneurs at the same eyelevel. To summarize his two major drivers to become a successful entrepreneur were based deep in his personality.

When we generalize our findings in our interviews we can conclude that all of these entrepreneurs share a desire for freedom and independence. They were also very passionate about their company and their business and they felt a strong responsibility for their employees. All of them were willing and did it partly in the past to sacrifice parts of their profit for the well being and long term employment of their employees. All of them run a healthy company and most of them were independent from banks which is a consequence of their desire for independence. All of them were prepared to take risks and are constantly innovating their products, services or processes. But none of them started or grew their business based on a single great idea. This finding was not really expected by us.

Summary and Outlook

This research was done with German entrepreneurs of small companies in various industries. The range of companies went from 1 mio € to 137 mio € of revenue and 20 to 700 employees. It turned out that the companies were headed by "real" entrepreneurs not only because they founded or took over their company but also because they have the right entrepreneurial strength shown by the entrepreneur archetype. Their strength in their entrepreneurial preference is accompanied by a nearly similar strength in their leader preference which goes align with their respect and responsibility for their employees and their future orientation. All of them are risk takers and for all of them this was part of their entrepreneurial strength and their tasl as an entrepreneur.

We will continue this research in 2014 with a similar sample of entrepreneurs in the US and will compare the results which then come from both sides of the ocean.

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