

The Entrepreneurial Mindset

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An Executive Summary of the book:

*The Entrepreneurial Mindset:
Strategies for Continuously Creating Opportunity in an Age of Uncertainty*

Executive Summary

Successful executives will learn to master uncertainty through the skills of entrepreneurial leadership. This calls for different disciplines than in conventional management. There are five key elements:

- ❖ Creating a climate supporting continuous search for opportunity
- ❖ Framing
- ❖ Stocking an opportunity register
- ❖ Focus
- ❖ Promoting adaptive execution

Entrepreneurial leadership: The most important job

Although uncertainty might cause many to freeze, it can be used to your benefit. Uncertain situations are full of new opportunities. Your task is to continuously identify high-potential business opportunities and exploit these opportunities with speed and confidence. Thus, uncertainty can become your ally, not your enemy.

Entrepreneurial leaders are distinguished from other managers by their personal practices. These fall into three categories: setting the work climate, orchestrating opportunity-seeking and moving particular ventures forward personally.

- ❖ Climate setting practices create a pervasive sense of urgency for everyone to work on new business initiatives. Dedicate a disproportionate share of your own time, attention and discretionary resources to finding and supporting new business models. Gary Wendt, who drove massive growth at General Electric Financial Services, demonstrated this principle. He consistently, predictably made new business development his top priority agenda item - at every meeting and chance encounter.
- ❖ Orchestrating opportunity seeking involves removing uncertainty from your people by clearly specifying what type of entrepreneurial opportunities are wanted. We call this 'ballparking.' A Swedish entrepreneur whose small company excelled at CAD/CAM technology defined an entrepreneurial playing field for his people of "50 to the power of 4." This meant he was interested in proposals that

had the potential to deliver 50 million Swedish kroner (\$8 million) in profits, by capturing 50% market share, with 50% margins in at least 50 countries. The logic was to seek opportunities where he solved a real problem for enough customers that he could capture the lions' share of a defensible global market without having to deal with competition from multinational firms. This gave his people scope, but also kept them focused on those opportunities where he felt that his company could build a strong position.

- ❖ Specific hands-on management practices recognize that the quest for insight is the single most important source of competitive differentiation a management team can bring to an organization. For example, Robert Brown and Linda Mason, founders of Bright Horizons child care centers capitalized on an insight that allowed them to create an attractive business model in a traditionally unattractive industry. Instead of focusing on individual families' needs for child care, the couple instead redefined their customer as corporations. In 15 years, the venture grew from a concept to a thriving business with over 340 centers.

Establishing the Entrepreneurial Frame

The entrepreneurial frame defines your goals. The idea is to push you and your team to undertake those initiatives that go beyond mere incremental improvement to really make a difference. Framing has two parts: first, a definition of success, and secondly an articulation of strategic direction.

The process for establishing a frame involves working through the following questions:

1. If you were to do something in the next three to five years that you, your boss, and your company's investors would regard as a major win, what would this look like?
2. What are the minimum amount of profits you need from your new ventures (at maturity) to make a difference to your business? From your established business? What rate of growth must you sustain?
3. What is the increase in profitability you need to achieve in the next three to five years?
4. What return on investment are you seeking?

The results can be categorized thus:

	Current Performance	Desired Performance	Specification of Success
Last year's Profits	200	10% improvement	220
Return on sales	10%	5% improvement	10.5%
Revenues required to produce profits	2,000	220 (above) / 10.5% (above)	2,095
Return on assets	15%	10% improvement	16.5%
Assets required to produce profits	1,333	Profit goal / ROA goal	1,333

Next articulate strategic direction by establishing screening criteria that are consistent with your 'ballparking' definition. Screening-out criteria are "drop dead" if a proposal has that characteristic. Screening-in criteria are "the more the merrier" (the more of these characteristics, the more attractive the opportunity). Think through the following questions:

1. What have the least desirable businesses that you have been involved with been, and what characteristics made them undesirable? What does this tell you about areas to avoid in the future?
2. What made a particular opportunity very rewarding for you? What does this tell you about areas to pursue in the future?
3. Integrate these statements into a list of (about) ten "screen out" statements and ten "screen in" statements that capture your experience. A "screen out" might be - "the opportunity would consume too much time from our key people." A "screen in" might be "this is an attractive market in which we already have a strong position". Try to make your screening statements as specific to your business as possible.

Eventually, your goal is to have about 10 screening in and 10 screening out statements that the organization can agree accurately reflect the types of businesses that are desired and not desired.

Creating a well-stocked opportunity register

An opportunity register is an inventory of potentially attractive new business opportunities. The idea is that at any point in time, you'll have a rich set of potential opportunities to choose from, rather than having only the choice of those that managed to survive a corporate winnowing process.

Two techniques are useful here. The first is called consumption chain analysis. The consumption chain is used to map the customers' entire set of experiences with your product or service offering. It begins with the trigger event or circumstance that leads the customer to be aware of a need, and continues through all the steps involved in their being a customer of yours. Any link in the chain has differentiation potential - which you can uncover by probing into the customers' experiences at each link.

The second technique is attribute mapping. This captures how well your offering is appealing to customers' needs at the moment. Start simply, by identifying an offering and an important customer segment. Then analyze to see where you could enhance positive attributes and eliminate negative ones, as in the chart below.

By using these two techniques, you will typically discover more good ideas than you can execute with the resources you have. The challenge is to now winnow them down to the very best, while realizing that you don't want to over-emphasize either existing businesses or new ones.

The attribute map

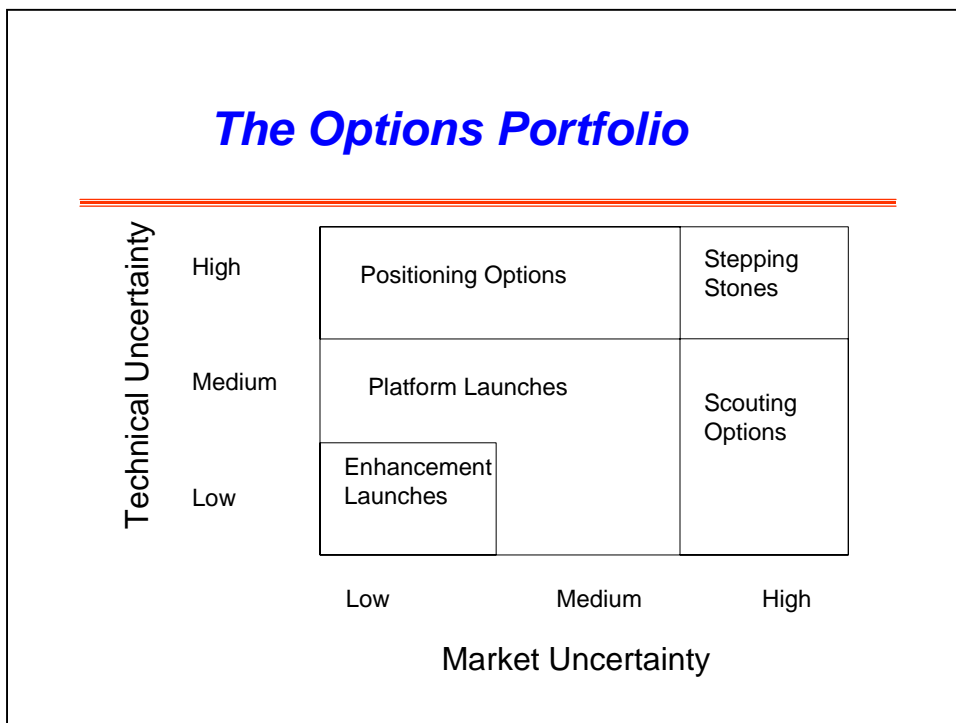
	Basic You perform as well as competition, everyone in industry at competitive par	Discriminator Some providers seen to have an advantage in the eyes of customers	Energizers Evokes powerful customer response
Positive Customer is positive about the feature or attribute	Non-negotiable Expected by customer, everyone provides it but it conveys no advantage	Differentiator Different from competition in a way that appeals to customers	Excites Evokes very positive "wow" response on part of customers
Negative Customer is negative about feature or attribute	Tolerable Performs no worse than competition	Dissatisfiers Performs below the level of competition - a reason customers might defect	Enrages Terrifies Disgusts Creates powerful negative emotional response
Neutral Customer doesn't care about that feature or attribute	So what Does not affect customers' purchasing decision at all	Parallel Influences customer attitudes, but is not directly related to product or service performance	No such beast

Source: MacMillan & McGrath, 'Discover Your Products' Hidden Potential' HBR, 1997

Creating Focus using real options reasoning

Like investing in a financial option, real options reasoning involves making small investments that give you the right to make a decision later. The idea is to limit your downside exposure until the upside potential of the opportunity is demonstrated. In conjunction with limiting risk, an options approach allows you to create focus and strategic alignment across your portfolio of initiatives. The portfolio addresses whether the market is certain or not, and whether the technological environment is certain or not, as in the chart.

Map the initiatives that your firm is pursuing on the chart. The mapping should reflect your strategy. If your strategy is to grow the existing business you will want more emphasis on the lower left hand section. If your strategy is exploration, you'll want more options. Firms usually learn from this exercise that they are taking on too many projects and that the projects that are in the pipeline are not consistent with their strategies. One way to fix this is to allocate resources to different sections of the map before projects are approved, then make them compete with similar projects for resources.



Promoting adaptive execution by discovery-driven planning

Discovery driven planning is a plan to learn, not to show that you had all the answers when you wrote the plan. The technique requires the interaction of five processes, working together. These processes are: 1) determining the frame (objectives) at the level of a project; 2) establishing competitive and market benchmarks; 3) defining operating specifications; 4) documenting assumptions; and 5) establishing key milestones. In uncertain environments, conventional planning makes no sense. Instead, plan with discipline to the next major milestone, then pause and re-plan as new information becomes available.

In all these techniques, the emphasis is on the twin activities of pursuing opportunity while remaining focused.

For Further Reading

McGrath, R. G. and MacMillan, I. C. 1995. 'Discovery Driven Planning' *Harvard Business Review*. July-August, 1995. This article outlines the technique in more depth.

McGrath, R. G. and MacMillan, I. C. 2000. Assessing technology projects using Real Options Reasoning. *Research-Technology Management* 43(4) pp. 35-49. This article offers an evaluative methodology for uncertain technologies.