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ACROSS THE BOARD

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Look Who's Talking

The rules are changing on the corporate-speaking circuit.

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Ten Dollars

Growing Pains

It's not how big you get but how you get big.

By Larry Farrell

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To this day I carry the Nov. 5, 1984 cover of *Business Week* in my briefcase. I carry it to keep me humble and to remind me to never again believe anything that management gurus have to say, even if it's written down in the most famous business book in history. In my first entrepreneurial venture, I had secured the contract to introduce Tom Peters' *Excellence* seminars internationally. It looked like a sure thing. After all, *In Search of Excellence*, written by Peters and Bob Waterman, was the best-selling business book in history. We were making steady progress, having set up joint ventures in some fifteen countries, when the famous "Oops!" cover of *Business Week* appeared. The feature story rolled out the awful truth that in less than two years since the book was published, one-third of its list of "America's Best Run Companies" had fallen on hard times. And those results only got worse. By the mid-1990s, $100 invested in the "excellent" companies would have produced a median return of $613, while putting on a blindfold and tossing a dart at any fund tied to the entire S&P 500 would have produced $752—a 22 percent better result. If the "excellent" companies couldn't even beat the average of all big companies, what's the point?

Unfortunately, one point became very clear to me: My fledgling business needed a Plan B—very quickly. For starters, I had to find a new product. *Excellence* was beginning to look like just another American management fad that didn't work. More fundamentally, if the best-selling business book of all time didn't even come close to discovering the truth about creating growth and prosperity in business, where in the world could we find those answers? It struck me that perhaps Peters and Waterman, along with the whole peculiar industry of management gurus, were looking in the wrong places for the answers. Maybe the place to look isn't the world's famous, giant companies. Maybe by the time they become famous giants, it's already too late. What if they're already past their prime and their current management practices are the reason for their approaching decline, not the cause of their earlier years of growth? Eureka! The truth has to lie within the business practices of the entrepreneurs who originally created and propelled all of those famous companies during their start-up and high-growth years.

Related to this revelation is the notion that companies *do* change over time—and the key is to understand the phases of a company's life, as opposed to taking a snapshot and assuming today's hot management idea is the source of all business success. Companies, like everything else in our world, must contend with their own life cycles. It's helpful to remember that of the hundred largest U.S. companies in 1900, only a handful are still in business—

a rather startling statistic that once prompted a Japanese executive to exclaim: "Now I see the real problem with lifetime employment. People live longer than their companies!"

Be that as it may, here's how the life cycle works. All companies begin with an abundance of the entrepreneurial spirit. Basic entrepreneurial priorities fuel the start-up and drive the company into a phase of high growth. During the start-up and high-growth eras, everyone is fixated on a few fundamental notions, such as getting customers, because that's the only way to get paid. The resultant high growth gets you size, and the passage of time gets you new leaders. The new leaders are almost always professional managers. These subtle shifts in size and leadership produce a new set of objectives. Presto! Planning, streamlining, and controlling the enterprise become the new order of business. Managing this and that becomes more important than making this and selling that. The jobs managing other managers become the ones that are paid the most. Policies, meetings, and bureaucracy erupt on every front. And slowly but surely, the simple, entrepreneurial thrusts that got you going in the first place are lost in the shuffle. Too much managing against too little entrepreneuring sets in motion the painful cycle of decline. Expensive consultants are called in to tell you what's wrong, and hordes of MBAs are hired to implement their solutions. These know-it-all folks almost always make things worse, and the decline picks up momentum. You're headed for the survival phase and ultimate demise, just like the great majority of the last century's giant American companies.

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The idea of the life cycle is alive and well today—and causing plenty of big trouble at big business. Beyond the high number of the giants that bit the dust during the twentieth century, 75 percent of the first Fortune 500 in 1955 are already off the list, and 70 percent of the mega-mergers of the past decade are in various states of failure. The good news is that any company can, and a few actually do, beat the dreaded life cycle. These five suggestions directly attack the deep-down differences between an entrepreneurial, high-growth enterprise and an oversized, over-managed bureaucracy:

Keep it small. Welcome to the $42 billion company famous for the slogan, "Growing big by staying small." At Johnson & Johnson, 118 years old and still growing at a robust 15 percent annually, employees are promised a "small-company environment with big-company impact." And J&J delivers on that promise. It is the most decentralized big company in the world. Its 110,000 employees are divided into two hundred separate, highly autonomous units, each with its own board—resulting in an average size of just 550 people per company.

Keep it personal. Ed Penhoet—scientist, entrepreneur, and founder of Chiron, the world's No. 2 biotech company—explains how he got employees passionately committed to winning the race to discover the hepatitis B vaccine: "If you reduce it all down to one thing, it's how to make it personal. So it's their soul that's involved and they personally feel the heat of the competition." Feeling personal consequences from your work is still the most powerful way to get people committed to the cause.

Keep it honest. No company can survive the test of time without internal and external integrity. Whether it's CEOs quietly paying themselves 531 times the average salary of their employees or Enron screwing its employees out of their life savings, the truth ultimately comes out. And when it does, the employees, the customers, and the shareholders won't believe a thing the company says for the next ten years.

Keep it simple. The "KISS" principle was put to the acid test by Jack Welch when he took over a moribund, ninety-year-old GE in 1981. "Neutron Jack," the man who wanted to run GE like a small, entrepreneurial business, flattened the company's nine levels of management, reduced the number of pay levels from twenty-nine to five, obliterated the corporate staff, and in the span of twenty years brought it from death's door to be the most valuable company in the world. Fortunately, Welch wasn't burdened with any MBA theories—he was just an engineer.

Start over with the basics. Great entrepreneurs have a sense of mission about their work, an absolute focus on both customers and products, a lot of innovative action, and a ton of self-inspiration. Walt Disney beautifully described these entrepreneurial basics fifty years ago when he said: "The inclination of my life has been to do things and make things which will give pleasure to people in new and amazing ways. By doing that I please and satisfy myself."

Start with these commonsense lessons and you'll be well on the way to getting—and staying—entrepreneurial. ♦