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A two-part guide for the reputationally challenged.

How to Kill the Entrepreneurial Spirit

Being a "supremely efficient" company is an excellent first step.

By Larry Farrell

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I've never met an entrepreneur who didn't believe that he was doing something important—and loved to talk about it. My experience has been that if you ask an entrepreneur, "How are you?" you'll get several hours on what a great product he invented and how it's going to transform the lives of his customers. You're especially vulnerable to this on long flights. Case in point: A couple of years ago I flew from San Francisco to Singapore. The flight's about eighteen hours, so you have to be on your guard about who is sitting next to you. On this particular flight, my seatmate was a friendly, athletic-looking fellow. While we were still sitting on the runway, I took a chance and said those fatal words: "How are you?"

What a mistake! For the next eighteen hours, all I heard was how his fantastic product was going to change the world. And what was this earth-shattering product? Hang on to your seat: He and his little company had come up with a machine that made perfect sand for golf courses. And since Asians love golf, he was bringing them his astounding machine. I don't play golf or even watch it on TV, but I learned more about sand and sand traps than I thought anyone could possibly know. Boring? You bet! But the point is: This young entrepreneur really believed he had created something of importance and value—for his customers, for his employees back in Seattle, and undoubtedly for himself. He was determined to leave "a footprint in the sand"—or at least in a lot of sand traps.

This is the built-in advantage of every entrepreneur. They have a vision. And that vision gives them incredible energy, desire, and pride. Of course, everyone talks about "the vision thing," but what does it really mean? A vision of what, specifically?

Here's the entrepreneur's answer: Imagine you're starting your own small business tomorrow morning. What will you be thinking about? What do you absolutely, positively *have* to be racking your brain over? If you're going to get to day two of the enterprise, you'd better be thinking, "What can I make or do that someone will pay me cold, hard cash for?" There's an underlying point here that gets lost in the shuffle of modern management thinking: Are great entrepreneurs product inventors or great promoters? Was Walt Disney a product genius or a marketing genius? Is Steve Jobs a great scientist or a great salesman? The truth is that they are both. Entrepreneurs, by necessity, have an inseparable vision of customer and product. Like the craftsmen of old, they must both make and sell. This vision produces focus, expertise, and respect for both customers and products. It also produces great competitive advantage against bureaucratic competitors.

However, it hasn't been easy to remain a craftsman in corporate America. After the Industrial Revolution, as companies grew bigger and bigger, it just wouldn't do for

everyone to do everything. That sounded like chaos—the one thing, above all, that big business couldn't tolerate. The solution was to specialize across the company and create a command-and-control hierarchy. It was at this apocryphal moment in business that the modern functional organization was born.

This quest for organizational efficiency has created unnatural barriers in companies. In the process, employees have been transformed from businesspeople to "product people" or "customer people" or "admin-

> ## Start by axing all those five-page job descriptions that confuse the issue.

istrative people." The "supremely efficient" company finds itself in the absurd situation of having product people who have never seen a customer, customer people who know nothing about the product, and administrative people hopelessly out of touch with both customers and products. Breaking up complete business units into functional silos looks great on paper, but in the real world, it's a proven prescription for boredom, bureaucracy, and killing the entrepreneurial spirit in even the best employees.

The best-known case of the disastrous effects of functionalizing and separating product and customer people belongs to Xerox. With product research in California, run by hip, early-Silicon Valley scientists, and marketing three thousand miles away in Connecticut, managed by pinstriped MBAs, Xerox lost billions of dollars in between. Xerox's famed Palo Alto Research Center literally paved the golden road to the modern computer industry. The only trouble was: None of the gold ended up in Xerox's hands.

At the time, in the 1970s, the company dominated the world market for typewriters and photocopiers. The marketing chiefs knew exactly how to sell these products, and they weren't interested in weird, new ideas from the techies out west. For example, PARC invented the Alto, the world's first PC, but Xerox's marketing division never got around to selling it. Xerox also invented the world's first fax machine, the Telecopier, and marketing just let it die. The complete list of PARC-created technologies that made other companies rich is truly astonishing. Today, untold billions in lost sales later, Xerox is trying to put Humpty Dumpty back together again by creating cross-functional teams between marketing and R&D. Stay tuned.

It doesn't have to happen the Xerox way. A few big companies simply never allowed functionalizing to destroy their customer/product vision. After seeing the lightning-fast distribution system of American supermarkets, Eiji Toyoda, the founder of Toyota Motor, designed his own "customer-driven production" system for making cars. He put design, production, marketing, and sales together under one boss, called it *kanban*, and started a revolution in the auto industry. Today, Toyota is the world's most profitable automaker and can put a completely built-to-order car in the hands of a customer in ten days. Nobody else even comes close. Michael Dell has brought kanban to a new level in the twenty-first century. He has literally combined the traditional customer and product functions into individual employees. The "Dell direct model" has given the company hard-to-believe competitive advantages and the highest annual rate of shareholder return of any Fortune 500 company over the past ten years.

Or how about those famous Saturday-morning meetings at Sam Walton's Wal-Mart? While Kmart and Sears slept, Sam and his management team in Bentonville, Ark., were on the speakerphones getting feedback from every region on customer preferences from the preceding week. By noon, all the product and price changes for the next week had been agreed upon and implemented nationwide. It was this kind of obsessive attention to customers and products that propelled Wal-Mart into becoming the world's largest company. And of course, there's still the Disney Co., which continues to instill Uncle Walt's vision in all new employees in its theme parks. The Disney training manual makes it crystal clear: Every employee, including the sweepers, is "part of the show." And everyone's job, above all else, is to "make the guests happy." This is the real magic of Disney: relentless focus on customers and products, by all employees, all the time.

To instill some entrepreneurial, customer/product vision in your business, here are four of the most powerful ways to get started:

Create entrepreneurial job descriptions for everyone. Start by axing all those convoluted, five-page job descriptions that just confuse the issue. Replace them with an "entrepreneurial job description" containing only three questions: Who are my customers/users? What are my products/services? What exactly do I have to do to satisfy my customers/users?

Transform your customer people into product experts. Put them to work in the factory for a year. It will do wonders for them and the company.

Transform your product people into customer experts. Give them a sales route and a quota for a year. Again, good for both the workers and the firm.

Transform your administrative people into customer/product experts. Put them in the factory for six months, and then give them a sales route for six more. They'll never be the same! ◆