

# BUILDING A COMPANY OF LEADERS

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Employees at every level of the organization need to take initiative—to conceive, to inspire, and to initiate change. In short, to lead. What is needed today, more than ever before, is entrepreneurial leadership. Entrepreneurial leaders think and act in a way that is opportunity obsessed—constantly looking for unfulfilled needs, gaps in service or product, and broken processes; holistic in nature—seeking integrated solutions that do not ignore consequences for other parts of the organization; and leadership balanced for the purpose of value creation—not just change for change’s sake, but to create measurable value for the enterprise.

## TWO KINDS OF ENTREPRENEURIAL LEADERS

The term “entrepreneurial leader” can refer to two different groups of people, with two distinct roles in the organization.

The first kind of entrepreneurial leader is familiar to most of us—the people who reside at the top of the organization chart and who have broad responsibilities across an organizational unit, or perhaps even the entire organization. The key roles of these leaders includes setting the organization’s vision, and then creating the space, systems, procedures, and culture that free others—at all levels of the organization—to take responsible initiative that can achieve the vision. These leaders must be skilled at mobilizing other strong people who can share responsibility at the top; solo heroic versions of leadership no longer work very well.

The second kind of entrepreneurial leader refers to someone at any level of the organization who works to uncover and pursue opportunities for constructive change. These opportunities for change include finding and pursuing new products, processes, services, markets, organizational approaches, and more. They may identify a broken process that wastes resources or delays service, learn of a new procedure for building customer loyalty, use careful analysis to spot a new market segment, and then figure out how to implement a solution.

Both kinds of leaders are desperately needed in today’s organizations, and both are essential for their future.

There’s no doubt that leaders can foster a culture of entrepreneurial leadership within their organizations; the question is instead whether this culture will take root and spread, or if it will wither on the vine. Topeka, Kansas is the unlikely home of one particular experiment in entrepreneurial leadership—an experiment that has survived a succession of different corporate owners, benign neglect, and some not-so-benign attempts to kill it off.

Three decades ago, due to fast growth of its Gaines brand dog food, General Foods decided to build a new manufacturing plant in Topeka, Kansas. General Foods manager

(and entrepreneurial leader) Ed Dulworth was selected as project manager, and he was given a mandate to design an organization that would accomplish two specific goals: (1) achieve the lowest possible operating costs, with no compromise in product quality, and (2) avoid the problems of employee “alienation” that traditionally plagued many manufacturing plants, leading to a variety of problems including absenteeism, product waste, and work stoppages.

In response to the General Foods mandate, Dulworth and his project team established a manufacturing plant built on a number of innovative and forward-looking policies and procedures. Rather than organizing under the traditional, hierarchical structures that were the norm at the time, the Topeka plant was specifically organized to promote employee engagement, initiative, and innovation.

### DUBBED THE “TOPEKA SYSTEM.”

The key features of this approach included: semi-autonomous work groups as the basic work unit (there were no supervisors; the role of team leaders was to act as a resource to members of the team), support functions integrated into the work teams (teams hired their own employees, made work assignments, and set plant hours), challenging work assignments for every employee, rotation of employees among a wide variety of different assignments, rewards for continuous learning, facilitative leadership, management information and financials open to all employees, and the minimization of differential status symbols.

This approach—many aspects of which would be considered routine in many organizations today—was quite radical for its time, but so were its results. Over the course of 20 years, the plant exceeded all standards of performance—productivity improved every year except one, overhead costs were lower than comparable manufacturing plants, absenteeism remained at a rate of less than 2 percent, while turnover settled in at a rate of less than 1 percent. The new plant experienced a dramatically reduced start-up time, generating greater productivity with fewer people than comparable General Foods units. By every measure, the Topeka experiment was an unqualified success. Not only did it prove that entrepreneurial leaders can have a direct and positive impact on the work environment; it clearly showed the power that could be unleashed when regular employees were encouraged to take initiative. An educational video of the Topeka story, *Topeka Pride: Twenty Years of Teamwork*, is still being used today.

### CREATING A NEW LEADERSHIP CULTURE

Creating an organization of entrepreneurial leaders at every level takes a focused, concerted, and long-term effort to shape the organization’s structures and processes. If the systems and processes that support the taking of initiative are not in place, then it will never take root. One of these is a clear entrepreneurial vision, reinforced constantly. Company leaders need to articulate an inspiring future, in which the organization makes an important difference for customers or community, and then use that vision repeatedly to guide decisions, inspire commitment, and motivate action. Emphasis only on

monetary goals, control, or preserving a protected position inhibits rather than inspires initiative, but so does an empty, unused vision statement posted on the wall.

Another important factor is ample rewards and recognition, including stock options. In many organizations, there is a perception (often, very real) that rewards and recognition are limited resources, given out only on rare occasions, such as an annual awards ceremony. Entrepreneurial leaders freely and frequently reward and recognize their employees in many ways, encouraging them to take even more initiative.

The most effective are rewards that are investment oriented, not just performance oriented. Many organizations reward in some form the most successful achievers, but to foster initiative there must be rewards in advance for those known to be innovative and proposing new ideas, so they have some resources to work with, and are seen as worthy of the organization's support of their efforts. This is part of a "belief-in-investment—and-risk-taking" rather than a "prove-it" mindset.

There's no faster way to stop employee initiative dead in its tracks than to punish employees who make honest mistakes when they try something new, or run into unforeseeable barriers. There should be no penalties for failure, unless they are repeated. As long as they do their homework, use sound business reasoning and try to benefit the organization, employees shouldn't be penalized for taking risks on new things, they should be supported and applauded.

Reduced hierarchy, flatter organizations, and reduced segmentation of units all contribute to increasing employee initiative. Each of these organizational structures results in leaders who are responsible for a broader range of work activities, while giving them increased authority to make decisions within their areas of influence. Freed of the constraints of hierarchy and artificial boundaries among functions, these people act more entrepreneurially.

Small units with cross-functional teams are much more flexible and can act more quickly than large units; cross-functional teams draw on the experience and knowledge of employees from throughout the organization, bringing new ideas, new perspectives, new experiences—and, often, new attitudes—along with them. At the same time, broad assignments and education encouraging initiative and experimentation will improve performance. People who move across functions, geographies, products and lines of business are exposed to many different perspectives and experiences, which makes them far more likely to be innovative compared to those who spend long stretches of their careers in one spot. The chance to learn about responsible initiative outside of one's area, with people from different parts of the organization, supports the ability to see new possibilities.

Perhaps the ultimate expression of entrepreneurial leadership is to enable employees to establish new ventures within the organization when they have fundable proposals, providing discretionary venture funds specifically set aside to support these efforts. If the venture succeeds on its own merits, then it can be retained within the organization, spun

off, or even sold. Outside investments supporting entrepreneurial businesses can also be made. Intel, for example, has done this incredibly profitably over the years.

Ultimately, your company exists to serve customers. Finding ways for those not usually in direct contact with customers to hear directly from them—bringing the voice of the customer inside the organization—can shake loose resistance to needed change, and serve as a stimulus to developing new products and services. (Now, 3M is encouraging early researcher interaction with marketing, a way of also adding the customer’s voice inside).

These methods can be adapted to non-profits, as well. Take, for example, Vinfen, an \$80 Million non-profit delivering mental health and mental retardation services in Massachusetts and Connecticut. This organization (on whose board I serve) had for years relied on government grants for funding all of its activities, and though it was innovative at delivering high-quality care and housing to difficult populations, it was set in its ways. To combat low margins and dependency on the narrow sources of funding, Vinfen hired a new, entrepreneurial leader, and began to encourage more initiative from its managers.

A series of new ventures have resulted, ranging from new services, new partnerships, and expansion to new territories; a spectacular new community opportunity including a relocated nursing home, job training, and more, is in the works. None of these activities are easy to make successful, and predictably, some early ones have not worked out. The organization has had to engage in many developmental and hiring efforts to enhance the skills needed for selling to new clients and delivering different services. But Vinfen has worked hard to learn from its experiences, and now is responding with new energy and receptivity to changes.

## DEFENDING AGAINST A RETURN TO THE STATUS QUO

All too often, these efforts to promote fundamental change that encourages the development of entrepreneurial leadership are actively sabotaged by those who have the most to gain: the leaders who will be rewarded for taking initiative within their organizations.

In general, we know that when there are scarce resources, people tend to expend a lot of effort to keep their peers from getting ahead. So, when one department does something terrific, instead of creating a model for other departments—and other leaders—to follow, it creates jealousy, or it simply gets written off. Let’s return, for a moment, to the example of the General Foods pet food manufacturing plant in Topeka, Kansas.

Although by every measure, the Topeka Experiment was an unqualified success, the idea never caught on outside of the plant’s walls, and into other parts of the company. Instead of embracing these new ideas, the rest of the company roundly rejected them. “That’s just Topeka,” was the common refrain of managers who felt threatened by new ideas that violated the way they had learned to do things. Even though their more rigid, hierarchical methods led to problems, they couldn’t let go of their beliefs, despite the evidence from one of their own plants.

“It won’t work here,” is a battle cry heard too often in hidebound organizations. And, while the plant managed to retain its unique operating style through a succession of owners—from General Foods to Anderson Clayton, to Quaker Oats, to H.J. Heinz and Del Monte—it remained each company’s best-kept secret.

Entrepreneurial leadership is not contagious. In fact, it is often rejected by the larger organization in much the way that the human body can reject a transplanted organ. The General Foods response of sequestering innovation is all too common. Top leaders need to ensure that the entire organization is open to the promise of creating leaders at all levels and in celebrating the people at every level who are able to make things happen. When people see that the organization supports them, this leads to a variety of important currencies that at least some of them value: visibility, recognition, reputation, monetary rewards of various kinds—stock options or bonuses—promotions, new challenges, and the chance to work on more difficult things.

When Rosabeth Moss Kanter looked at change from the middle in her book *The Change Masters*, one of the interesting things she found was the organizations that got the most initiative were organizations that had ample rewards and recognition. In one organization, people joked, “Around here you get an award for not bumping into the wall.” But, that generous climate made people feel that they were around terrific people and that there was a lot of credit to go around. It helped them believe that they were with a lot of other great people, so should behave in a great way.

Create the right climate, and you’ll unleash the behavior that your organization needs to succeed today. As at GE, where Jeff Immelt, the new CEO, is working to reinvent the company yet again, renewal needs to be continuous. It takes entrepreneurial leadership to sustain entrepreneurial leadership! Create the wrong environment and, not only will you be planting your organization firmly in the status quo, but employees will become resentful of others, inflaming organizational politics in the process while encouraging employees to pull one another down. The pain of constant opportunity seeking and the resultant changes cannot be worse than the pain of stagnation and infighting.