Entrepreneurial ego

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What makes an entrepreneur tick? What is his prime motivation? What differentiates him from his colleagues in the business community?

Four experts met in the Boston office of Touche Ross recently to discuss the factors that produce successful entrepreneurs. How much do they determine their own destinies? How much is controlled by external circumstances? How important in the equation are financial management, marketing know-how, and the product itself?

The discussion by these experts focuses on the entrepreneurial climate as well as entrepreneurial psychology. It analyzes priorities and decision making. We hope it offers an insight into what it takes to be an entrepreneur.

The participants were:

Patrick Liles, partner, Charles River Partnership, a venture capital firm; he has written on the motivation of entrepreneurs.

Howard Stevenson, Sarofin-Rock Chair in entrepreneurship at Harvard Business School; he has consulted with and conducted lectures and seminars for entrepreneurs. He previously was chief financial officer of a rapidly growing entrepreneurial firm.

Barry Unger, consultant to technology-based companies and a founder/officer of several high-technology companies; he also is a co-founder and vice-chairman of the MIT Enterprise Forum, which assists high-tech start-ups.

John Keydel, partner-in-charge of Touche Ross's Boston office—moderator. Since this discussion, he has been named executive director of Touche Ross International. The questions presented by Keydel appear in italics.
What personal attributes do you find in someone who has that entrepreneurial urge?

Howard Stevenson: First, a singleness of vision. The people who are successful over the long run seem to be those who are able to understand the finance, the marketing, the production—all aspects of a business. Second, contrary to what many think, they are not risk seekers. The best ones do everything they can to minimize risk. And finally, they are constantly seeking opportunity.

Patrick Liles: Let me focus this a little, because there is a lot of folklore about the entrepreneur. One notion is that he is a rebel, a dropout. It would be helpful, I think, to consider entrepreneurs in terms of the kinds of ventures they pursue. One type starts a very marginal firm, and this may be because he is a dropout, or cannot hold a job in an organization. But another type founds an attractive small company, which has no intention of building into a major business; it is an expression of himself. And a third type starts a high-potential venture that he wants to build into a major company. The motivation and the capability of this last group are quite different from those of the first two types of entrepreneurs.

Let's focus on this latter group.

Barry Unger: Yes, they are highly driven; but the real story is that they know how to manage that drive. They are very rational in their approach.

Liles: We used to see the technical entrepreneur, the chief engineer or chief scientist, who could build a better box. He needed $150,000 to make a prototype, and he was going to do it in his garage. So the venture capitalist looked at this person and said, Yes, this is a better product, and he can build it. But then we asked, Is there a market for this box at this price? And second, Could this person ever run a company? Today, in contrast, we find entrepreneurs emerging with a whole management team—a product VP, a marketing VP, a financial VP. They tell us, The product will look like this; it is going to be beta-site tested here; these are the suppliers; and there are our first three customers. And here are our bankers, our lawyers, and our accountants. There's no question in their minds that they are trying to build a major company.

Unger: That type of person thinks in terms of market opportunity and then makes plans to exploit it. By comparison, many aspiring entrepreneurs we see at the MIT Enterprise Forum, while competent about their technology, don't think so systematically about the business aspects. They don't see that marketing and team building have to be thought out just as carefully as engineering. They often equate the management side of business with little more than fast talk and charisma.

Stevenson: Actually, entrepreneurs used to look at the venture capitalist and say, in effect, Have faith. But the success of the Digitals and the Wangs have shown what good technology can achieve with good management.

How universal is this perception of what is needed?

Liles: Geography is important. In Silicon Valley, around Los Angeles, on Route 128, and in a few other places, like Minneapolis and North Carolina, you have the right climate. You have people who are willing to join a team, others who are willing to supply a start-up company, and bankers willing to lend money.

Stevenson: This is an interesting point, because people who become entrepreneurs don't perceive today that there is a great deal of risk involved. Fifteen years ago, one cut one's ties from the big firm; it was do or die. Now it's expected; and if the project fails, there are six jobs waiting out there.

Unger: What you also find in high-tech areas is that entrepreneurs and their professional advisors are likely to know what a business plan is and how to draw one up. Certainly in the Boston area we've seen a tremendous improvement in the last few years.

Liles: Yes, there's been an improvement in the quality of the entrepreneur, the quality of the business plan, the quality of the business strategy.

Stevenson: I would argue that the entrepreneurial type and the business manager are becoming one and the same. In fact, I'm not sure there really is an entrepreneurial type anymore. Because the perception of personal risk has changed.

Liles: There is one difference that I see, though. We call some people good broken-field runners. I'm thinking of the early stages when there are going to be setbacks. These special people know how to scramble, how to complete the play; whereas others do not.

Stevenson: To me, Pat, the independent entrepreneur can be told “no” 99 times and “yes” once, and feel he is a success; while the organizational entrepreneur who works for a big company can be told “yes” 99 times and “no” once, and feel he is a failure. You need a certain tolerance for ambiguity to succeed as an entrepreneur, because you're never sure what's going to work.

What is there, perhaps buried in the psyche, that makes a person say at one point, I've got this idea, and I'm going to try it?

Stevenson: I think it happens sometimes when people think their career is blocked. They've mothered an idea inside their corporation, and for one reason or another it isn't accepted, and they say, What the heck, let me try it. Or they are in their mid-thirties, and they don't have tremendous chains of responsibility around their neck yet, and they think that if they're ever going to try it...

Unger: There are also increasing numbers of people in their fifties or sixties who have done very well in large businesses or institutions but now are leaving to
start their own businesses. Their pensions are vested, the kids are out of college, and they're in a stage of their lives where they want to create, to do something. Of course, there still has to be that drive, that desire for autonomy, and the right business and family cultures to support that kind of initiative. A lot of factors have to come together.

**Stevenson:** What I find interesting is that many new-breed entrepreneurs don't use the phrase "my company" very often. If you ask them whether they are self-employed, their response is that they may be a significant owner but they "work for a company." That's a very different attitude from what you used to run into.

**Liles:** We, in fact, have seen the technical entrepreneur step back and say, Hey, I'm not the person to do this. We've got to have professional people in here. When it's not "my" company, this attitude encourages first-rate management people to come in. In some very specific situations, this has made the difference between being successful and floundering around. One interesting angle on this is that these technical entrepreneurs are brighter than most people, including management people. Yet, even if they understand marketing issues, there are certain skills and judgment ability, based on experience, that they lack.

**Stevenson:** Many of the administrative skills that keep a company moving are not that interesting in themselves; they tend to be repetitive. Things need to happen the same way every day. While the creative technical entrepreneur often cannot stand the notion that things ought to be stable, to run in a pattern.

**Unger:** But not all engineers are alike. Some do become excellent entrepreneurs.

**Stevenson:** I know. I'm looking around this table.

**Liles:** Another point is that certain large corporations are excellent breeding grounds for entrepreneurs. In a sense, it's the price these companies pay for being so good. When we see an entrepreneur come out of IBM, we know he's going to have the instincts, the capabilities.

**So IBM attracts that kind of person, but where does the inclination come to move out on one's own?**

**Stevenson:** We give too much lip service to there being certain innate qualities in entrepreneurs. Very often the move is in response to a series of developments—personal, economic, technical. How often do you think, My gosh, Harry's not that smart. He's good, but how is he worth $40 million?

**Unger:** Entrepreneurs come out of all sorts of backgrounds—big companies, little companies, universities—but small companies seem to be the most fertile breeding grounds for other small companies.

**Stevenson:** Yes, you're closer to what steps you need to take, the nature of the different teams, the need for venture capital—it's all around you. And you think that you can do it, too.

**So the environment has a lot to do with the decision.**

**Liles:** Frequently what occurs is that the company makes a strategy decision: we're not going to pursue this market, for example. And they have put together a red-hot team to achieve just that.

**Stevenson:** These breeder companies—the IBMs, the 3Ms—also foster the idea that success does not come through a bureaucratic process. They encourage you to put together ideas and sell them internally, and there's not that much downside risk if the idea isn't adopted.

**Is there a geographical environment?**

**Liles:** Traditionally, banking looks at balance sheets, assets, and personal signatures. But here in Massachusetts or on the West Coast, bankers understand that this is not an assets business we're talking about, and they can deal with it.

**Stevenson:** The geographical environment is also important in attracting people. To create your team a few levels down, you need people who don't perceive a tremendous personal risk going to work for a company that's just opened.

**Liles:** A lot of it is very circumstantial. It isn't a matter of a certain ambition or a certain target. It is the joining together of a group of people. You recognize this ability, this product, this market, and that nobody is doing it. You think, What an opportunity.

**Stevenson:** At a certain point in their lives, people face options. They've made some money, and they have to ask themselves if they want to make twice as much, or are there other things they would like to do, like found a business. Or, if you have a business, someone comes to you and says an articulate person is needed in Washington to represent their interests—and suddenly that sounds like fun.

**Unger:** People tend to look at their lives in terms of career phases. After eight to ten years, they move to a different environment.

**Stevenson:** And why not? Take a company that grows 30 percent a year. After nine years, it's going to be a very different beast. It's not realistic to assume that the CEO who brought it through one stage—and his talents matched that stage—is necessarily going to want to take it through a new stage and a new challenge. His satisfactions may well be different. His
psychological development is not necessarily going to match that of the business.

Unger: I know of several entrepreneurs who have started four or five companies. That's what they get a kick out of. They're starters. But others are early growers and get their kicks out of that. Still others need to develop large companies.

Stevenson: It would be interesting to trace how different people seek prestige, whether it is by going through channels in a large company, starting a new company, or what. I suspect that the former course is not exactly a measure of success for the children of the sixties.

Unger: We shouldn't underestimate the social acceptability of starting your own business. People are proud to say they're in a start-up. The older view of entrepreneurship was brought home to me a few years ago when I was serving in the Carter administration. Prior to some meetings I had with French government officials, I was informally advised by our diplomatic specialists to de-emphasize my background as a small-business person prior to government service, and instead to emphasize that the computer company I had co-founded was now part of the giant Xerox Corporation. Thank goodness that sense of negativism about entrepreneurship is changing now, both here and abroad.

Can we sum up by asking again what makes an entrepreneur?

Liles: In addition to the ingredients we've discussed—like energy, intelligence, and ambition—I would add that successful entrepreneurs have the ability of pragmatic judgment. Certain people give you a sense of confidence that they can deal with uncertainty or adversity and move a company forward, whereas others do not show that ability.

Unger: We also discussed the broad factors that facilitate entrepreneurship, and what creates opportunity in your environment. The technology. The market. Pertinent legislation. A confluence of skilled people and management people. Tax policies. The risk atmosphere. And then to that you add the person with the will and the right psychological attributes to exploit the opportunity.

Stevenson: I think the consensus is that we really can't identify the entrepreneur as a type. What is important to him is the climate. Then the feeling comes that a person can make a difference—that it's worth putting my energy and my intelligence to the task. It's a feeling, by the way, that is desperately needed in all sorts of organizations today.

Perhaps a sign of the times is that many public figures today seem to be taking a long-term entrepreneurial stance on major issues. Thank you very much for contributing your own thoughts to this question.

By the end of this decade, I think we can look forward to machine-based supplements to human knowledge functions in much the same way that the pervasive use of motors has supplemented the capabilities of human muscles. The only kinds of problems that today's computers are really good at are either basically numerical in nature, such as accounting, or ones which can be readily translated into numerical form, such as games. Because most human knowledge doesn't lend itself to numerical representation, an entire scientific discipline—artificial intelligence—has been established to deal with the problem of extending computation into inexactly defined areas that people, but not machines, can deal with easily. What is now apparent is that a host of important human problems can be addressed by means of computable algorithms. Examples of such areas range from the diagnosis of respiratory diseases to the sophisticated statistical analysis of data from a scientific experiment. Computers can thus be the fabric which conveys the knowledge of one human being to others in a way which may well be described as the logical extension of the role that the printed page plays in our present world. The impact of these "expert systems" will clearly be profound.

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