CHAPTER 13

Intrapreneurship

Joseph Alois Schumpeter, an Austrian-trained economist who taught at Harvard, is considered the chief proponent and popularizer of the word *entrepreneur* in 1911. During the next decade, he made the following statement in support of the idea that entrepreneurship was not limited to small start-up firms, but could also occur within big established firms: "Innovation within the shell of existing corporations offers a much more convenient access to the entrepreneurial functions than existed in the world of owner-managed firms. Many a would-be entrepreneur of today does not found a firm, not because he could not do so, but simply because he prefers the other method."[1]

Thus, the idea of corporate entrepreneurship was born almost 100 years ago. This activity is now commonly referred to as intrapreneurship. While I introduced intrapreneurship in Chapter 1 when discussing the entrepreneurial spectrum, I chose not to discuss it in greater detail because I believe that an entire chapter should be devoted to the subject. I also believe that to really understand intrapreneurship, one must thoroughly understand entrepreneurship, and therefore I wanted the reader to fully digest all the lessons about entrepreneurship in the previous chapters before tackling this subject.

Intrapreneurship is the spirit and act of entrepreneurship in a corporate setting. I have done training sessions on the topic of intrapreneurship at Nike, Hearst Management Institute,

S. C. Johnson, Allstate Insurance Company, the National Association of Broadcasters, and the American Press Institute. These are companies and organizations that know that we live in a world where time is not what it used to be. This is the age of "Internet time," where compared to a decade ago, a year is 6 months, a month a week, and a week a day. Therefore, corporations must know that they cannot rest on yesterday's successes. They also realize that growth can no longer come through simply increasing prices. Today, more than ever before, we live in a global world. Instead of accepting price increases on products or services, customers will go to the Internet to find the same products or services at a lower price. As a result, corporations must continue to remain hungry, with a sense of urgency, creativity, and, most important, vision.

Bob Morrison, the former CEO of Quaker Oats, is a great example of corporate leadership embracing the intrapreneurial spirit. At a company meeting, he announced to his employees, "We must change the mind-set and culture at Quaker. We must think and act like a small, entrepreneurial company."

THE INTRAPRENEURSHIP SPECTRUM

To give greater clarity to the subject of intrapreneurship, I have created the intrapreneurship spectrum in Figure 13-1.

FIGURE 13-1

Caretaker	Developer	Innovator
Pfizer	SC Johnson	Altoids

Caretaker

While the caretaker is not an intrapreneur, the category is included on the spectrum simply as a point of reference. This is the corporate employee who is the antithesis of the intrapreneur. All things entrepreneurial are anathema to him. He is most satisfied with inheriting an established product line that has a solid customer and employee base with moderate growth.

Developer

This is the intrapreneur who takes a company's existing products or services and pursues high growth by targeting new customers and markets. While the products or services are not new, they have no brand equity with the new targeted markets. For example, Altoids was a 200-year-old British product that was originally used to calm upset stomachs. It has been owned by Kraft Foods, who sold it to Wm. Wrigley Jr. Company, and it is now the most popular breath mint (even more popular than Certs), with over 20 percent of the $300 million U.S. breath mint category.

Another great example is the Pfizer company's introduction of sildenafil, a drug that was initially studied for hypertension. It was patented in 1996. The story goes that when male patients used the drug, their wives complained to the doctors that their husbands were now chasing them around the house like they did during their honeymoon decades earlier. With these data, in 1998, Pfizer decided to target a new market with the same drug, which we all know as Viagra.

Innovator

This is the intrapreneur who pursues high growth for his company through new products, services, and/or business models. The innovator is not a member of the company's R&D department, and therefore creating new products, services, or business models is not her official responsibility.

A great example of an intrapreneur in this category is Sam Johnson, the former CEO of S. C. Johnson. Several decades ago, Sam, the grandson of the company's founder, decided to pursue the development of a new product without the approval of his father, who was the CEO. The company, which now manufactures an entire spectrum of consumer products, including Glade air fresheners, Windex, Scrubbing Bubbles toilet cleaners, and Oust air sanitizer, was primarily a manufacturer of wax cleaners. Sam came to his father and informed him that he had developed a new product, outside of the research and development department. His father's reply was, "That's fine as long as it has wax in it." Sam responded, "No it does not have wax in its ingredients, but if you include it, the product would be less effective." Sam's new product was a pesticide that we all know today as Raid.

INTRAPRENEURSHIP MODELS

Intrapreneurs, whether they are developers or innovators, use different formal or informal models to bring their innovative ideas to fruition. The best descriptions of these models were published in a recent research paper by corporate entrepreneurship expert Robert Wolcott, an outstanding scholar and adjunct professor in the Levy Entrepreneur Institute at Kellogg, and Michael Lippitz, a research fellow at Northwestern. These models are the Opportunist, the Enabler, and the Producer.[2]

The Opportunist

This model basically says to employees, "Do whatever you want to do, because the company does not have any formal systems relative to corporate entrepreneurship." This is a model in which new services or products, like Raid, come from individual champions, not through systems. Ironically, success under this model typically leads an organization to implement a more formal model, such as the Producer or the Enabler.

The Enabler

This model says to employees, "Anybody in the company can come up with a new service or product, but here is the process for developing it." With this model, the company explicitly communicates to its employees the procedures for requesting development capital and the criteria that will be used to determine which projects receive funding. Google is a company that has had major success with this model. For example, its service Google Talk, which is a free system for instant and voice messaging, came from an employee as part of the company's 10 percent program. This innovative program allows all employees to devote 10 percent of their daily working hours to the development of their own ideas. As one Google employee stated, "We're an internal ecosystem for entrepreneurs . . . sort of like the Silicon Valley ecosystem but inside one company."

The Producer

This model openly recognizes and proactively supports the importance of entrepreneurship in a corporate setting. The company creates a separate entity that has the specific task of creating new products or services outside of the present business. Several companies have embraced this model, including Xerox, with its New Enterprises Division; Coca-Cola's Innovation centers in five different locations throughout the world; and Cargill's Emerging Business Accelerator division.

TRAITS OF THE HIGH-GROWTH INTRAPRENEUR

In Chapter 2 we identified 15 common attributes of successful high-growth entrepreneurs. Interestingly, while many of those traits also apply to the intrapreneur, there are a few unique attributes.

Those attributes include:

- Risk taker
- Hard worker
- Has a plan
- Good manager
- Visionary
- Profit focused
- Innovator
- Accepts being managed

Some of these traits are worth discussing in more detail.

Risk Taker

The successful intrapreneur is not a blind risk taker. He has a plan, especially if he works for a company that uses the developer or innovator model, and he executes the plan according to a defined timeline. This is called "planning the work and working the plan." Unlike the entrepreneur, who typically risks his personal assets, the intrapreneur's risk is much less. At the most, he could lose his job if his new ideas or innovations are not commercially successful.

However, while the intrapreneur's risk may be less than the entrepreneur's, he certainly assumes greater risk than the average corporate employee.

Accepts Being Managed

One of the reasons why some people become entrepreneurs is that they want to be as independent as possible. Specifically, they loathe the idea of having a boss. In contrast, the intrapreneur, given his status as an employee, accepts the fact that he answers to a manager above him. He does not have carte blanche to do anything that he wants to do. He must usually seek and receive approval from a higher authority in the company's organization chart. The intrapreneur usually accepts being managed by others as a standard way of doing business.

ACTS OF INTRAPRENEURSHIP

Intrapreneurial activities include acquisitions of other companies and product lines, the introduction of new products outside of the traditional research and development process, the creation of new strategic partners, and changes in a company's business model. Let's review, through anecdotes, each of these activities in greater detail.

Acquisitions of Other Companies and Product Lines

In 1998, McDonald's purchased 90 percent of Chipotle Mexican Grill, a chain of 14 restaurants that was founded in 1993 by Steve Elis, a professional chef trained at the Culinary Institute of America. This acquisition was truly an intrapreneurial act of innovation on McDonald's part. Prior to this acquisition, the company seemingly viewed innovation as simply putting the letters "Mc" on the beginning of any idea. For example, it unsuccessfully experimented with the McDiner, a restaurant serving traditional food, such as meat loaf and mashed potatoes, in a diner.

Introduction of New Products Outside of the Traditional R&D Process

A great example of the intrapreneurship model in which "products emerged from champions rather than systems," a phrase created by Bill Perez, occurred at SC Johnson Wax company with the development of its storage bag product line, which generates in excess of $150 million of annual revenues. The original idea and the development of the prototypes came not from the company's R&D department, but from two marketing department employees. The company had no plans to enter the storage bag category until these two intrapreneurs persuaded management that it was a business that could be grown fast. As Bill Perez, the former CEO of SC Johnson, said about the two employees, "Nobody asked them to do it."

Creation of New Strategic Partners

In 1994, Viacom, a $10 billion entertainment conglomerate that owned Madison Square Garden, MTV Networks, Showtime Networks, numerous theme parks, and dozens of television stations, purchased the 6,000-store Blockbuster video chain for $8 billion. Two years later, Blockbuster's cash flow had dropped 42 percent. Sumner Redstone, the 75-year-old chairman and founder of Viacom, knew that he had to make changes. Rather than simply cutting overhead, he got intrapreneurial.

Redstone knew that videos shown at home provided movie studios with nearly 3 times the revenue of showings in movie theaters. The studios charged Blockbuster a flat fee of $80 per video. In contrast, movie theaters usually did not pay a fixed price; instead, they split the revenues with the studios. Redstone decided that this partnership model between movie studios and theaters should also be applied to Blockbuster. The first studio that he approached with this partnership was Warner Brothers, which rejected the proposal. His next target was Disney, which he successfully convinced that it could make money if it treated Blockbuster as a partner, instead of as a customer. The agreement was that Blockbuster's fixed cost of $80 per video would be reduced to $8 and that Disney would receive 40 percent of the video's rental revenues for up to 26 weeks, at which time Blockbuster could sell the video, thereby recouping its original $8 investment.

The financial results were enormously positive for both parties because they reduced the outlay of capital by Blockbuster while allowing it to increase its stock of the most popular videos. Six other studios followed Disney with a similar strategic partnership with Blockbuster, including Warner Brothers.

Changes in Business Model

Three of America's blue-chip companies, IBM, Best Buy, and Nike, have been wonderfully intrapreneurial by changing their business models. IBM, a company that was seemingly an antiquated, lumbering old has-been by the 1990s, was turned around by a great intrapreneur, Lou Gerstner, the CEO, who did not have a technology background when he came from RJR Nabisco. Gerstner successfully changed IBM from an equipment supplier, as it had been for its entire life, to a solution provider/consultant.

After Wal-Mart, the world's largest retailer, began selling brand-name consumer electronics earlier this decade, it was assumed that Best Buy's revenues would decline dramatically. Instead of acting like a victim, however, Best Buy became intrapreneurial. Five years ago, it changed its model from being exclusively a retailer to being a solution provider, like IBM, by adding installation services and trained salespeople, which Wal-Mart did not offer. Best Buy's revenues increased 16 percent.

Phil Knight, the great entrepreneur who founded Nike in 1974 as an importer of running shoes, later changed its model to an athletic shoe and apparel manufacturer. Today it is also a successful retailer.

SIGNS OF INTRAPRENEURIAL SUCCESS

A company has successfully created an intrapreneurial spirit and program when it is unequivocally clear that it agrees to manage intrapreneurs differently from other employees by encouraging them and giving them the space and freedom to innovate.

Further evidence of intrapreneurship includes the company's acceptance of failure. Google is a great example. In response to an unsuccessful innovation that cost the company several million dollars, Larry Page, one of Google's founders, told the employee who had been in charge of the idea, "I'm so glad you made this mistake, because I want to run a company where we are moving too quickly and doing too much, not being too cautious and doing too little. If we don't have any of these mistakes, we're just not taking enough risk."[3]

The final sign of successful intrapreneurship is when the company proactively encourages employees with creative ideas to step forward. An extreme example is Sealed Air Corporation, which has 14,000 employees. Its employees are encouraged to bring entrepreneurial ideas directly to its CEO.

STANDARD OPERATING PROCEDURES

The ideal intrapreneurship system should be made up of the following processes:

1. *The system should be simple and user-friendly.* The U.S. Forest Service Eastern Region changed its innovation suggestion process from a four-page form to telling its employees, "If you have an idea, tell your supervisor or send an e-mail. If you do not get a response in 2 weeks, as long as the idea is not illegal, go ahead and implement the idea." Before the change, the 2,500 employees submitted, on average, 60 ideas annually. A year after the new procedures were implemented, 6,000 new ideas were submitted!
2. *Reward employees for successful ideas.* Share the wealth. Northwestern University has a results-oriented reward system for anyone who develops an idea that gets commercialized. In 2007, chemistry professor Richard Silverman received his portion of the royalties that the university received from a pharmaceutical firm, Pfizer, which purchased Lyrica, a chronic pain relief drug that had been created by Silverman. The university received more than $700 million. Silverman's portion has not been

publicly disclosed, but it can be assumed that it's many millions of dollars, given the fact that he and his wife are the primary benefactors for the new $100 million Northwestern University building that will "bring together engineering, biology and chemistry for interdisciplinary research." Its name will be the Richard and Barbara Silverman Hall for Molecular Therapeutics and Diagnostics.

3. *All ideas should be reviewed*, and the submitters should be informed of a decision as soon as possible.
4. *Every step in the review process should be transparent and well publicized*, as should the criteria used to approve ideas.
5. *The review and approval process should be managed by more than one person.*
6. *All intrapreneurial success stories should be publicized throughout the company to all employees.*
7. *Employee expectations should be proactively managed.* Employees should be told that in the entrepreneurship world, most new companies do not succeed. And the same applies in the corporate intrapreneurship world, where most ideas will be rejected.

INTRAPRENEURSHIP BLUNDER

The implementation of the procedures just listed will almost guarantee that a company does not duplicate one of the greatest intrapreneurial blunders in corporate history. In the mid-1970s, Steve Wozniak, a college dropout and self-taught electronics engineer, worked at Hewlett-Packard (HP). He offered his employer the chance to develop the idea that he had for a user-friendly personal computer. Hewlett-Packard said no thank you. So with $1,300 derived from selling his van and other assets, he left HP at the age of 26 and, with the help of his friend, Steven Jobs, developed the Apple I computer for their new entrepreneurial start-up, Apple Computer, Inc.

NOTES

1. Gary Emmon, "Up from the Ashes: the Life and Thought of Joseph Schumpeter," *Harvard Business School Alumni Bulletin*, June 2007, p. 25.
2. Robert C. Wolcott and Michael J. Lippitz, "The Four Models of Corporate Entrepreneurship," *MIT Sloan Management Review,* Fall 2007, p. 77.
3. Adam Lashinsky, "Chaos by Design," *Fortune*, October 2, 2006, p. 88.