Beyond IBM

Leadership, Marketing and Finance for the 1990's

Lou Mobley and Kate McKeown
Foreword

(A Special Message for Entrepreneurs from Arthur Lipper III,
Chairman and Editor in Chief of Venture magazine)

The first two chapters of this book are about the creation and development of the world's most consistently value-adding commercial enterprise. The book as a whole is one of the more instructive business management books I've read, as well as being fascinating, both as a history and as a philosophy text. The Mobley Matrix is described in detail in the finance section. It will become, I predict, one of the most widely used presentation formats benefitting entrepreneurs, managers, lenders, and investors.

But *Beyond IBM* does indeed go beyond the story of IBM. It is a superior bisuness management book, covering leadership, marketing, and finance. There are so many well-conceived thoughts, expressed in such highly quotable form, that few readers who speak publicly or write for publication will be able to restrain themselves from plagiarizing the clear, lucid text whose authors manifest an eloquent economy of language.

One of the reasons I found *Beyond IBM* such an important book is that I spend my life in the midst of entrepreneurial America. Venture has more than 450,000 subscribers, more than 70% of whom are either owners or partners in their businesses. Many of these subscribers also have an involvement in creating businesses other than their principal one. Each month in *Venture* we "cover" more than 100 companies, particularly the

younger, innovative, entrepreneurially managed companies. Also, as chairman and founder of the Association of Venture Founders I am in continuing contact with hundreds of successful entrepreneurs. Both as a vocation and an avocation, I am deeply involved in a broad range of entrepreneurship education activities. I am therefore sensitive to the educational needs of our country's most economically productive group, those who are willing to assume the responsibility for the lives of others by becoming employers.

Beyond IBM addresses directly the psyche, interests, and needs of employers. It is a book for and about employers. It is a book about constant change and the need to welcome - rather than to be frightened by - the prospect and certainty of change.

What do entrepreneurs do best? Recognize market niches and, if successful, create products that will satisfy the demand and, if truly successful, defend the niche created.

What do entrepreneurs do worst? Predict future events, particularly those which they believe they have an ability to influence. Entrepreneurs almost always believe they can control their destiny, and the need to control their destiny is an important part of an individualistic drive that results in their becoming entrepreneurs.

Entrepreneurs who read and study *Beyond IBM* will gain an enhanced ability to understand their current situation and to better plan for their future circumstances. It is cash and not accounting concepts such as profit and loss that dictates how a company must be managed. It is a company's current and future cash level that determines appropriate and available strategies, therefore ultimate value. Using the Mobley Matrix will significantly increase an entrepreneur's understanding, true understanding, of his or her current and therefore likely future position. A better understood position in one which is easier to control.

Why can't IBM, perhaps one of the very greatest and best managed of companies, create an environment wherein entrepreneurs can flourish? Since IBM has all of the resources available to accomplish almost any task, why have they not been able internally to develop and retain successful entrepreneurs? Can it be that this most enlightened and well managed of enterprises does not want to be burdened with those who are overly individualistic? Can it be that the baggage accompanying entrepreneurs, almost by definition contemptuous of authority and impatient with bureaucracy, is more troublesome than acceptable from the perspective of an organization whose size requires discipline and orchestrated motivation more than it does the innovation of individual entrepreneurs? Would an IBM be advantaged by having the skills and insights of a substantial number of entrepreneurs, those willing to assume a personal risk in the pursuit of profit? Would that advantage by sufficient to compensate for the internal havoc such inspired individuals are capable of generating? Although IBM could benefit from entrepreneurs, it probably won't be able to make the necessary accommodations.

Many companies are currently asserting that they both want and have developed a strange new hybrid, which *Venture* has dubbed "corporateur." A corporateur is an individual having some, or perhaps many, of the characteristics of an entrepreneur save for the willingness to accept a full measure of personal risk and responsibility in return for the freedom, other benefits, and obligations, of being and employer.

In their chapter on managers and executive, Lou and Kate do an excellent job of describing the skills, knowledge, systems, and values that managers and executives must call on to perform effectively. They outline how a person grows from non-manager to manager to executive. Then they describe how entrepreneurs are overnight executives and have to grasp the essentials of business management quickly and on the job. Doing, rather than studying, is likely to be the normal entrepreneurship education curriculum.

Though many claim to crave the luxury of self-determination, only a few are really prepared for the responsibility and loneliness associated with being the captain of a vessel. The larger organizations, be they government or commercial bureaucracies, are just not suited to grow or house entrepreneurs. Those leaders gaining corporate promotion and power are not likely to be those persons having the characteristics of successful entrepreneurs. They are likely, however, to be better assessors of terrain and be better practitioners of the art of the possible. The winners within larger enterprises are those who tend to be more manipulative and less direct. They make fewer mistakes and fewer important wins. Also they may well be, or appear to be, "nicer" people or, at least, will have developed their people skills to a point where those more powerful than themselves "like" them. The successful entrepreneur is more likely to be intimidating to those having more power and to befreind those over whom he or she enjoys, and is burdened with, power.

Entrepreneurs are just very different people from those who succeed in the larger companies. This is not to say that they are better or worse. It is to say they are defferent. The characteristics and potential problems associated with gifted children are remarkably similar to those applicable to entrepreneurs. The following is selected from a listing of traits that appeared in the February 1988 issue of *Gifted Children Monthly*, a publication for the parents of children "having great promise," which I founded nine years ago.

high verbal ability

keen powers of observation

long attention span, persistence, intense concentration

creativeness, originality

ability to see relationships, make connections

sensitivity

high energy level

independence

a loner

Beyond IBM raises subliminally but effectively the issue of "winning," and so do many business books. It is unfortunate that winning is so frequently left undefined by many people embarking on a career path. Therefore, values other than the individual's are both imposed by others and self-imposed by the entrepreneurs. I believe that if there were an individualized, introspective determination of a personal definition of winning, there would be fewer disappointments resulting from the entrepreneurial process.

Entrepreneurs are parents of enterprise. They are similar in some respects to artists and architects who have visions and grand designs not always communicated effectively to others. In many cases, even the entrepreneur is not able fully to articulate the ultimate plan. Entrepreneurs proceed on the basis of "feel" and intuition. The entrepreneur must be able, however, to persuade those with needed resources of the ultimate success of the program since it is essential to gain access and control over the resources. Entrepreneurs do not usually lie. They do not even believe they are exaggerating or embellishing when they project future achievements and objectives - though the two can easily become interchangeable in presentations. Entrepreneurs are much more likely to become victims of fraud than they are to be perpetrators. Were entrepreneurs more cynical, they would

suffer fewer disappointments and accomplish less. Entrepreneurs need to be in control. They truly believe that they can control future events and therefore do not have to lie to others for they can achieve the predicted results by force of willpower. The almost ever-present entrepreneurial need to control may well be insecurity-based. Nevertheless, to others the entrepreneur exudes confidence and gives every appearance of being in control at all times. The entrepreneur may be willing to seek advice but is seldom willing to place himself or herself in the position of being dominated by individuals or circumstance.

Achieving wealth is not one of the primary objectives of most entrepreneurs. They assume success and know that in our society commercial success and wealth are usually synonymous. However, it is the power accompanying wealth that is the sweeter fruit and more a driving force. The power to cause change, to create and develop, to make decisions and mistakes, is the entrepreneur's objective. The entrepreneur has a need to prove herself or himself. This need is frequently a result of having had a particularly strong relationship with a parent or, in the case of those in technology-based businesses, a group of prior colleagues or an employer. Entrepreneurs want to prove themselves right in the development of what they may well have been told wouldn't work or shouldn't be attempted. Entrepreneurs know that they can make something happen. Unfortunately, they sometimes know that their company will achieve a specific result next year, even if the year has to have a few more months of revenue credit than the normal twelve. One of the problems facing investors in private companies is that the entrepreneur's definition of success may be related more to product and customer satisfaction than to immediate profit creation. Investors and entrepreneurs should frankly discuss specific objectives and goals before the investment is made.

Entrepreneurs starting businesses usually are self-financed or assisted by family and friends. Commercial funding and professional investment sources are usually not available to entrepreneurs. They typically accept sacrifice in income, and certainly - in the

normal definition - in security, in starting their businesses. Having a focus on the future, entrepreneurs have difficulty focusing on the details of running a business. They are as impatient with administrative detail as they are with authority and bureaucracy.

There is a pervasive and destructive myth circulation that entrepreneurs enjoy risk. Quite the contrary is true. The entrepreneur is by nature risk-averse. The entrepreneur fears the randomness of events over which he or she has no control. Entrepreneurs are not generally found in casinos. Rather they are seen on ski slopes, sailing, mountain climbing, or in some activity that is challenging and may be frightening to observers but where the participant can be in control. Those who choose to become entrepreneurs or employers (if they indeed really do have a choice) do so as opposition to accepting the position of being employed and therefore having less control over their lives. If observers -- particularly those who are the gatekeepers to other people's money - understood the entrepreneur's natural risk aversion, entrepreneurs would find financing easier to obtain. This would be a positive development, as entrepreneurs are our country's most productive resource.

Entrepreneurs are optimistic and certain of their ability to control their future, but they are natural worriers. Perhaps it would be better were they less certain of ultimate victory, as then they might invest some energy in covering their flanks and rear and even in locating possible reinforcements should the need arise. One of the aspects of *Beyond IBM* which I find most interesting is the enhanced ability the user of the Mobley Matrix has in distilling currents of change and displaying the results of forces driving businesses.

Impressing on entrepreneurs, particularly younger entrepreneurs, the need for alternative or contingency planning would be performing an invaluable educational service. Investors considering participating in an entrepreneur's dream should explore with the entrepreneur the question. "What if *it* (whatever the "it" is for that enterprise)

does not occur as predicted? What will you do then?" Typically, the entrepreneur will not have a good answer. This reluctance to articulate the unthinkable, or the genuine lack of prior consideration to the possibility of a desired event not occurring should not disqualify the project as an investment. Instead, they should give rise to a further questioning of projected events and perhaps, just perhaps, managerial maturity or, at least, objectivity.

Entrepreneurs, however, as well as their financiers and mentors, must remember that "first must come the dream and then the reality, as without the dream there will be no launching of the missile." The application of cold logic did not build this nation. Men and women with dreams created that which most of us enjoy. In many cases, they did "it" because no one they chose to believe told them they couldn't do "it."

I believe it would be wholly constructive were entrepreneurs given a focus and perspective that would permit them to:

1. Measure their successes in such a way as to understand that winning a lot is usually a result of lots of little wins and that these shorter term and perhaps, therefore, lesser gains should be understood as being important

2. Understand that not every situation is destined to work out as desired, and that most human endeavors fail to achieve the results originally predicted by the original conceivers and initiators

3. Understand that truly important successes are usually only measured and measurable long after the event has occurred

4. Understand that survival, staying in the game, is vital for ultimate success

5. Understand that winning, in retrospect, may well be understood to have been a matter of having had the judgment and courage to withdraw at some point, while there were still resources available, for future recovery and counter-attack.

6. Finally, understand that losing money and currently perceived opportunity is a part of the process - not the end of the world.

I frequently think that a phoenix would be a better entrepreneurial symbol than the more traditional eagle. The overly macho entrepreneur is, of course all too often chiefly fearful of either thinking of himself or of having others think of him as "chicken."

There are about 17 million incorporated businesses in the United States. The business discontinuance statistics are not as readily available and require much more study and qualification than those for new incorporations. It must be understood than perhaps more that half of all corporations are not really "in business" in terms of having employees, since they are used as entities for holding assets. When new entrepreneurs start new businesses, there is usually a good deal of activity engendered. People are employed, goods and services sold, premises leased or acquired, and taxes paid. Ultimately, a significant percentage of new businesses are terminated. This is very different from the destructive and erroneous cliche of a large percentage of new businesses failing. The President's Report on Small Businesses states that:

"Ninety percent of the approximately 400,000 business that dissolve each year do so for voluntary reasons, such as retirement of the owner or desire to enter a more profitable field. Ninety-nine percent of "failed" businesses have fewer than 100 employees under 80% are under 10 years old. Only 10% of businesses that annually cease operations do so

for involuntary reasons. They may file for bankruptcy or be considered a failure if the organization ceases to operate and leaves outstanding debt."

Actually, bankruptcies are running about 60,000 a year, versus more than 600,000 new incorporations.

Another reason for the discontinuances is the inability of the new enterprise to obtain credit. It is therefore without creditors (who deny credit because they believe most new businesses fail in the first five years) to pay. There isn't a "failure" in the traditional sense but rather a discontinuance.

The key to making a new business succeed is cash flow. I believe that what entrepreneurs need more than anything else is a full and realistic understand of cash-flow projections and profit margin analysis. The single best element of advice for entrepreneurs is not to run out of cash. And if an entrepreneur seeks credit, the best way of obtaining it is to demonstrate to the prospective lender when and how repayment will be accomplished.

It's cash availability, not profit, that is important to entrepreneurs. Profit is an accounting concept and the basis for taxation. Cash is what pays rent, salaries, and suppliers. Without sufficient cash, nothing works and the entrepreneur is at risk of becoming a consultant or lecturer to future entrepreneurs on the need for cash. The primary purpose for laboring through the creation of a business plan is to understand the permutations of the projected development cycle in order to assess the amount and timing of needed cash. Every entrepreneur ought to read Chapters 10 and 11 of *Beyond IBM* very carefully. Others who also need to understand the essence of finance and cash flow should similarly study these pages.

The future can be frightening to those who have most to benefit from a maintenance of the status quo. The future is coming no matter how strong a defense is posted. Inevitably the future will be a composite of change. Entrepreneurs seek the challenge of constructive change and make things happen.

Beyond IBM is a book which will help readers achieve more than they would, had they not been exposed to this truly important book. It should be seen as a text for students of business and those too impatient to remain students. One of the quotes from the book which I have already used in talks is "Learning occurs when there is a felt need or clear relevance." For anyone involved in commerce, the relevance of *Beyond IBM* will be inescapable.

--Arthur Lipper III

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