Re-entrepreneuring

How Organizations Can Reignite Their Entrepreneurial Spirit

ROLAND BERGER PARTNERS

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Dedicated to all the Roland Berger partners who have made re-entrepreneuring part of what we do every day and helped our clients succeed. Without you this book would not have been possible. Thank you.

– Charles-Edouard and Stefan

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PREFACE

In today's fast-paced world, a half-century is a long time. It is many lifetimes rolled into one. And this fact came to light when discussions began within Roland Berger, our consultancy firm, about how to celebrate the 50th anniversary in these days. The first few suggestions were predictable: we could mark our Golden Jubilee with a big party for current employees, their families, and our alumni. Or we could produce a glossy book, telling the story of our first 50 years with pictures of our people, beginning with our founder and progressing through the subsequent generations to ourselves.

Fifty years is a long time. We have added many feathers to our cap, weathered many storms and come out stronger. The Roland Berger of today is not the same as the Roland Berger of yester-years. The conversation took a more serious turn when someone asked what had changed in the half-century since our founder had set out his stall as a consultant for German organizations re-establishing themselves in the aftermath of World War 2.

We saw the period as consisting of several waves of change: the globalization wave of the 1970s, the personal computer wave of the 1980s, the mobile phone and Internet wave of the 1990s, the wave of the smartphone and the 'platform' business model in the first decade of the new millennium, and the current wave, which cannot yet be characterized, but which could be seen in some ways as a prelude to the coming age of artificial intelligence.

There was also a world of difference between the kind of work we did for clients, such as the German tourism group TUI, in the firm's early days and the kind of work we have been doing recently for clients such as Chinese smartphone suppliers OPPO/Vivo.

This led to the question of what, if anything, had stayed the same during Roland Berger's first 50 years.

The idea that led to our decision to write this book was that in helping organizations to preserve and create value we have been concerned, since the beginning, with the sources and uses of human energy.

Organizations have lives of their own that transcend those of the individuals who comprise them. But without the energy of the individuals who pass through them, they could not act, or react, to their constantly changing environments and the successive waves of change. This energy takes many forms, ranging from human passions for quality, elegance, speed and lean-ness, to qualities such as determination, loyalty, resilience and a refusal to take things as they are for granted.

Of all the forms of human energy that give life and vigour to organizations, entrepreneurial energy, the search for, and pursuit of, new opportunities to create value, is the prime mover. It gives birth to organizations in the first place, and is the only kind of energy that can renew and refresh an organization when changes in its environment demand an adaptive response.

Although we didn't always recognize it at the time, we realized that in most cases, it was this powerful entrepreneurial energy, which loosens and re-shapes, that we had been using in our assignments for companies, national and local governments, and non-governmental organizations (NGOs).

We didn't conclude from this, however, that we or our clients were 'entrepreneurs' in the normal sense of the word. In popular culture, the archetypal entrepreneur is a free agent who starts his or her own business either from scratch or as a spin-off or spin-out from an existing organization. Entrepreneurial energy in this personified form was not available to us or our clients, which are usually established organizations. But although we ourselves were not entrepreneurs, we realized that during assignments we and our clients often adopt the entrepreneurial outlook and behave in ways that have the hallmarks of entrepreneurialism.

It seemed to us that, without being conscious of doing so, we and our clients had succeeded in overcoming daunting obstacles by reaching back to the organization's origins, recapturing the then-dominant entrepreneurial outlook, and bringing it to bear on the challenges of today. We had managed to detach entrepreneurship and entrepreneurial energy from the person of the entrepreneur.

If we could bottle it and apply it at will, we would have the equivalent of an elixir of corporate youth that could be injected into organizations that were struggling to adapt to their changing environments. We had the impression that the need for such a tonic had been growing in recent years, because of what we call the VUCA factors or qualities (Volatility, Uncertainty, Complexity and Ambiguity) that have come to characterize the modern environment.

This book is an attempt to distil this entrepreneurial energy by looking back and re-interpreting some of the work that our more than 200 partners, 2,500 consultants with help of all our employees, and thousands of alumni have done for clients over the past half-century. We don't claim we are the only firm to use this energy, but we believe that we are among the first to recognize it for what it is: a juvenile form of creative energy that gets organizations going in the first place, but which they tend to lose access to as they develop.

The idea of 're-entrepreneuring', as we call these injections of entrepreneurial energy, was triggered by the chance combination of developments and circumstances. The 50th anniversary discussions were part of it. At the same time, interest in the 'Light Footprint Management' model we had proposed in 2013 (0.1), which urged organizations to recapture the agility of their youth, remained high. Third, we had been having some success in the market, with a new approach to re-structuring that we had called 'entrepreneurial re-structuring'.

These three themes came together in discussions with partners working in various industries. They focused attention on our own origins and on the idea of looking back to when organizations were younger, smaller and lighter on their feet, for inspiration about how to move forwards. Partners came up with many examples of where this general approach had been taken, some of which are described in the pages that follow. They emphasized that it wasn't a matter of literally going back and starting again. It was a matter of re-discovering entrepreneurial energy, and applying it to the current situation. Re-entrepreneuring differs from traditional consulting in that it is not a prescription or a remedy, but a re-awakening of dormant faculties, much as immunotherapies awaken immune systems.

The prefix 're-' in words such as re-structuring, re-forming, re-viewing and re-inventing, seemed an important theme to us, because it conveyed a sense of returning, and repeating an action that had been done before. If 'entrepreneuring' is what people do when they create organizations out of nothing, 're-entrepreneuring' is the application of the same creativity to assets and capabilities that already exist. It is re-arranging these assets and capabilities so that they can be used to seize new opportunities, and confront new challenges. From there, it was a small step to the conclusion that, to adapt to a VUCA world, organizations must learn the art of 're-entrepreneuring'.

This book is a collaboration – a joint exploration by members of a large global consulting firm of the implications for modern organizations of current trends and adaptive pressures. It is the creature of our own entrepreneurial energy, as we adapt ourselves, and our services to clients, to the threats and opportunities that lie in wait for all of us. Before we end, we would like to express our deep gratitude towards Tom Lloyd who helped us sift through nearly 50+ complex case studies and articulate the ideas presented in this book.

Charles-Edouard Bouée and Stefan Schaible

1

Reculer pour mieux sauter

All companies begin with an entrepreneurial act, but successful companies usually lose that youthful impulse over time. As the firm becomes an institution, managers' concerns typically shift to preserving the company's franchise. They begin to pursue a more conservative strategy, doing more of whatever won them their initial success. They add tangible assets (plant, buildings, cash, inventory, etc.), develop intangible assets (intellectual property, reputation, structure and culture), and extend their distinctive ecosystem of like-minded partners and vendors.

Sooner or later, however, the times in which the company found its original niche begin to change. Maybe the market declines and a set of key customers move on. Maybe new competition reduces the profitability of the old business model. Or maybe technology eliminates the profitability of an entire industry, destroying the value of formerly prized assets and expertise. In any case, executives realize that their winning formula does not seem to win quite so often any more.

Now the company must reinvent itself. If it is to thrive again, managers will need to find some entrepreneurial instincts within themselves or recover a dormant entrepreneurial impulse from the company's youth. Then, looking at their current assets and liabilities, and after thinking through the true mission of their business, they make a decision about where the firm will go from here. We call this process re-entrepreneuring.

The French saying *reculer pour mieux sauter* (step back, to go forward more strongly) sums up the idea. To cross a stream, you don't step into it; you retrace your steps, run at it and jump across. Similarly, we find that despite all the new opportunities created by technology, the solutions to the key problems the organization faces today or anticipates facing tomorrow often lie in its past. In particular, they lie with those entrepreneurial qualities that were considered relevant at an earlier stage of the organization's development but have atrophied in maturity.

Entrepreneuring by its nature is a youthful act. Howard Stevenson, Emeritus Sarofim-Rock Professor at Harvard Business School, defines 'entrepreneurship' as a 'pursuit of opportunity without regard to resources currently controlled'. Entrepreneurs 'see an opportunity and don't feel constrained from pursuing it, because they lack resources. They're used to making do without resources'. (1.1)

Re-entrepreneuring is an older and wiser version of the same act. In many ways, it is a braver one, as the leaders making the new bets understand more clearly all that is at risk. It entails nothing less than the innovative realignment of an existing set of assets and processes in pursuit of a new opportunity or to create new value.

As we shall see in the following case of TUI, the German travel giant, sometimes companies survive this phase by acquiring new assets. Other times, as with Apple and the iPod, they win that new lease on life by creating new products. Either way, the essential quality of re-entrepreneuring is that it is not a matter of thinking 'outside the box' – it is about thinking *with* the box, applying the company's existing assets and distinctive qualities to a new purpose, using the box itself as a stepping stone that will carry the company across a difficult time to a better time.

The emergence of TUI

The Great Depression tanked many businesses, but those that survived went on to prosper. One unlikely survivor was Dr Tigges-Fahrten, a holiday company founded in 1928, just before the stock market crash. The recession was not the best of times for leisure and entertainment businesses, but Tigges-Fahrten sailed through by smartly focusing on budget tours. It wasn't smooth sailing all along though, and the business had to go into a hiatus during World War 2. Despite the adverse circumstances, it continued to adapt its strategy and by 1953 it had organized its first air tour and, over the next decade, it had diversified well beyond Europe and organized its first world tour.

At this time, the firm came to realize that the future of tourism was in air travel, and that this would demand a different kind of business organization. Buses were cheap. Airplanes were not: air tours were cash-intensive because of the need to pre-book seats for chartered flights. But to succeed, substantial financial and organizational resources would be needed to operate on a scale the market had begun to demand. Only a larger company could maintain the necessary level of working capital to keep the business afloat. To prepare for these new conditions, Tigges merged with Touropa and Scharnow-Reisen and, later, a long-standing joint venture partner, Hummel Reisen. In 1968, the four companies rebranded themselves as 'Touristik Union International' (TUI).

The team designed a robust management structure that would play to the strengths of the constituent companies' leaders, and the TUI group adopted a full-range approach to cover all segments of the market.

Each constituent company concentrated on those segments in which it had a competitive advantage – Tigges: study trips, expeditions and adventure tours; Hummel, Scharnow, Touropa: sport trips; Scharnow, Touropa: health and convalescent trips. The aim was to sharpen the focus of the group companies, reduce competition between them and, by working together, offer a range of products that covered the most lucrative segments of the market.

By adopting the holding company model, TUI aimed to achieve substantial cost savings by taking over administrative tasks from the four companies so that they could focus their attention on the operations. Central units were formed for accounting, review, tax and materials purchases. A group marketing department, supplying market research, advertising, and sales promotion services was also developed. As these services did not differentiate each company's offering, they could be centralized to save costs.

But differentiation was still necessary in the product ranges, and so the managing directors of the individual brands retained the responsibility for their tour line-ups. In this way, TUI distinguished between 'initial' (entrepreneurial) creativity, which was the responsibility of the group companies, and 'selective' creativity, such as brochures and advertisements, which fell under the purview of central management.

The merger worked. In 1969, annual customer numbers exceeded a million for the first time, and services and product lines were extended.

Over the next two decades, TUI continued to expand its portfolio of high-quality travel products and services. In 1970, it formed its travel services division, TUI Service, and substantially increased the range of services offered by its operators. The broad spectrum of packaged and individual trips by air, train, car and ship was complemented by new holiday formats ranging from club holidays and stays at country farms, to trips to nudist beaches for sunbathers, tennis and sport centres, and a special youth travel programme, 'twen-tours'.

The company launched a joint venture as well that would prove significant in the coming years. In 1971, TUI, Germany's airline, Lufthansa, and the Bundesbahn (the state-owned rail network) formed a joint venture to develop a new electronic booking system.

In the early 1970s, TUI also stepped into the hotels and hospitality business by laying the foundations of the Robinson Hotels brand along with Steigenberger Hotelgesellschaft. The first Robinson Club – the Jandia Playa – was set up in Fuerteventura in 1971. Then in 1972, TUI acquired Iberotel, the Spanish hotel chain.

This 'merger strategy' proved to be the right one. By creating communalities of challenges and solutions, it allowed TUI to stand out from the mass in a more and more competitive market. Several decades later, TUI has changed, of course. But it is still operating in this 're-entrepreneuring' mode, relying on effective governance and efficient back-office functions, and with a strong focus on content, at a time when tourists are looking for authentic and personal experiences.

Another company that has been strong with its re-entrepreneurial instincts is Apple. Apple entered its 're-entrepreneuring' stage shortly after founder Steve Jobs walked back into Apple's headquarters in January 1997, 12 years after being fired as CEO. (1.2)

First, he took a step back. He cut Apple's product line back by 70 per cent, eliminating problematic products such as the Newton, a precursor of the Palm Pilot and the other Personal Digital Assistant electronic note-keepers, and cut the workforce as well by about 3,000 employees, out of a total of 11,000. 'Deciding what not to do is as important as deciding what to do,' he later explained. 'It's true for companies, and it's true for products.'

Then, he took a surprising step forward, one that would transform both the computer business and the entire music industry – but not without a little wobbling on its back foot first.

In the late 1990s, the popularity of online music exploded, as consumers began to take advantage of the digitalization of music that had begun in the 1980s with the mass adoption of the compact disc (CD). College students, and later other music listeners, learned to share music files. Napster and a number of file-sharing sites attracted millions of followers. In the year 2000 alone, 320 million blank CDs were sold in the US, which consumers used to store music they had 'ripped' from Napster and other file-sharing sites. A new era in digital entertainment had begun, but without Apple.

The catch-up campaign began with the addition of a CD burner on the iMac, but that was not enough. Jobs wanted an MP3 player. To the techno-zen culture nurtured by Jobs, the MP3 players then on the market were clunky, ugly and seriously lacking in storage capacity. Jobs and his colleagues listened to a lot of music and knew what 'good' would look like in an MP3 player: elegant, easy to use, and capable of storing a 1,000-song playlist.

As he had with the Macintosh computer nearly 20 years earlier, Jobs and his team looked at the clumsy, inelegant technology and saw a transformational opportunity.

This time around, however, they had more than the eye for design and obsession for quality they had in 1984: they realized that they already owned some of the key elements of an entire new music ecosystem.

Apple already had the key component in FireWire (an IEEE 1394 serial port), which it had developed a decade earlier to transfer files from one device to another. It was just a matter of reaching back, and deploying it in new applications.

Apple had also already launched its own music service, through another act of re-entrepreneuring: the company had found a music file-sharing start-up run by three members of its alumni network. They recognized that SoundJam could be designed to be more attractive than Napster and the other pirate music sites. Apple acquired and then rebranded SoundJam as iTunes in early 2001, releasing it as an application free to all Mac users.

It also went beyond the other file-sharing sites at the time by creating a legal market for online music that hadn't really existed before, giving Apple a new role in the music business as a retailer.

The decision to develop what became the iPod was a violation of a time-honoured management axiom that a company should stick to its knitting. But Jobs and his team understood that Apple's true value was not as a computer company, but as a maker of consumer-friendly digital tools. By going back to Jobs' initial understanding that consumers would respond to elegant, easy-to-use design in an aesthetically pleasing appliance, and that Apple's core value lay in delivering such beautiful machines, they found a vast new opportunity, setting the company on a new path that led straight to the iPad and then the iPhone and the iPhone Appstore, creating two vast platforms for digital content that completely realigned electronics, media and entertainment.

At some point, almost every company faces a variation of the kind of challenge faced by TUI and Apple – a changing world in which they are on the verge of losing their niche. What is different today is that even relatively young companies are facing what tended to be more of a mid-life crisis.

Vijay Govindarajan and Anup Srivastava, professors at Dartmouth College's Tuck School of Business, analysed all 29,688 firms that listed from 1960 through 2009 and found that failure is more common in newly listed firms as opposed to older ones. They write, 'A company listed before 1970 had a 92 percent chance of surviving the next five years, compared to just 63 percent for a company listed between 2000 and 2009.' (1.3)

Reasons are not hard to find: the environment is changing faster than ever. With the arrival of the personal computer (PC) in the 1980s, the Internet, the smartphone, and the exponential growth of data substituted for the steam engine, we find ourselves in the throes of a similar transition in the adaptation of our organizations to their changing environment. And with artificial intelligence (AI) and further dramatic advances in microbiology just around the corner, the adaptive pressure can only become more intense.

Often, the effects of these pressures take a little while to make themselves felt. Not much happened in organizational design during the initial PC wave, when IBM and Hewlett-Packard were the pioneers, but new business models and organizational structures began to emerge when the baton passed to a host of 'IBM-compatible' new entrants, such as Compaq and Dell. The typical pattern, displayed by the railways in the nineteenth century and the automobile industry in the twentieth century, is an initial proliferation, followed by consolidation, as natural selection (competition) winnows the host of new entrants down to a few survivors (e.g. Apple and Microsoft, in this case).

The same pattern unfolded during the commercialization of the Internet. In this case, the novelty of the 'space' being colonized by the horde of new entrants led to more organizational innovation from the outset, but pioneers, such as AOL and Yahoo, didn't stay the course. The initial proliferation was christened the dotcom boom and culminated in the upstart new economy AOL acquiring a pillar of the old economy, Time Warner, in early 2000. The NASDAQ index peaked at 5,133 on 10 March 2000. The bursting of the dotcom bubble pushed the NASDAQ down 78 per cent by the end of 2002. In the tumult that followed, many companies simply vanished, while others saw their stocks plummet. Cisco, for instance, which in the year 2000 surpassed Microsoft to become the most valuable company in the world, saw its share price fall by a whopping 86 per cent after the dotcom bust.

The pioneers in the early days of mobile telephony too went through the same process. Motorola, Nokia, Blackberry and Ericsson began as the industry's leaders, but lost their way with the arrival of the smartphone, when Apple, then Samsung, Huawei, OPPO/Vivo and Xiaomi took over the market (see page 110).

It is safe to say that the same pattern of pioneering, followed by proliferation and consolidation, will probably repeat itself in the coming artificial intelligence revolution.

Are pioneers doomed to fall by the wayside as the products or markets they create are 'commoditized', or otherwise transformed, and their organizational structures or business models cease to be fit for purpose?

We do not believe so, but there is no denying that the adaptive pressure is increasing on all organizations, and it is clear that the traditional corporate structure is itself under pressure.

Advances in information and communication technologies in the 170 or so years since the modern company first made its appearance have reduced transaction and information costs almost to zero, and have dramatically increased the efficiency of inter-firm coordination. Some say that net transaction costs may now even be negative sometimes, because the connection costs less now than the value they add to a firm's network capital and reputational assets. At the same time, the growth of outsourcing, joint ventures, alliances, partnerships and other kinds of co-operation, which gives globalization its substance, suggests that, in some sectors, traditional top-down organizing no longer makes much sense.

What next? As Nobel Laureate molecular biologist Jacques Monod said, evolution in nature is driven by a combination of 'chance and necessity'. (1.4) Today, partnering and co-operation have become so common that it makes more sense to think in terms of business ecosystems, rather than integrated companies, consisting of value-chain neighbours and trusted suppliers and customers. Each member pursues its own goals, but in so doing imparts a collective direction to the ecosystem as a whole, much as ants exhibit 'swarm intelligence'. Some have suggested that an ecosystem of this kind, consisting of Microsoft and the PC clone makers, such as Compaq and Dell, unintentionally destroyed IBM's PC business.

Another development that is undermining the cultural intensity of large companies and other organizations is the increase in the mobility of their personnel. Employers began to repudiate the old job-for-life social contract that used to be the norm in the corporate world in the downsizings and delayerings of the early 1990s. The consequence is that few people now envision their career as a steady climb up one organization's hierarchy. The increased mobility of managers is also attributable in part to a proliferation of specialities – finance, operations, marketing, manufacturing, ICT, HR – which have led to a shift in focus away from loyalty to an organization to one's profession.

The loss of control over individuals has followed in step with a loss of control in most industries and economies of their market. As trade expands, the market power of individual companies falls, and instruments of market control, such as IP protection, have become less effective.

Over the past few years, a new shift in power has been underway and, again, large established companies have been conspicuous by their absence, with Airbnb, Alibaba, Didi Chuxing, Facebook, PayPal, Tencent, Twitter and Uber taking the lead. Digital technologies favour entrepreneurs, because they allow them to scale-up rapidly through network effects, adopt agile business models and keep costs low.

How should an incumbent respond?

The word entrepreneur is a noun: to be more specific, a person. If real entrepreneurs were as thin on the ground as most people believe, it would be fruitless to suggest, as we intend, that they are a solution to the problem of adaptation, at the firm-level. They can help an economy to adapt, but if they are rare, they are unlikely to be available to a particular organization.

But suppose entrepreneur was a verb. What would it mean 'to entrepreneur' and how much 'entrepreneuring' is, or could be going on?

Although serial entrepreneurs addicted to the new and the risky are rare, everyone can adopt the entrepreneurial outlook or approach when contexts permit or circumstances demand.

The interesting question for organizations, then, is not how few full-blooded entrepreneurs there are, but how common, how accessible and how easily invoked are their approaches, outlooks and qualities.

From this we can derive a definition of 'entrepreneuring' for our purposes: *A way of thinking and acting that takes nothing for granted, is unconstrained by any resource considerations and seeks opportunities not previously identified to create value as quickly as possible.*

The argument we will make in this book is that the winners in the world we live and work in today will be organizations that focus their entrepreneurial instincts in a way that does not disregard their current assets. Jobs' return helped invoke the entrepreneurial instincts that lay buried deep in Apple's DNA but had been lost over time. Tigges never hesitated to face the changing travel market and adjust itself to meet its needs. But it need not involve a reclaiming of the past so much as clear-eyed sense of the company's present.

Many organizations mistakenly assume that in order to progress they must look at reviving the start-up mind-set, and ignoring the strengths and capabilities they have grown over time. As a result, they experiment with start-ups. They either develop initiatives such as incubators or intrapreneurship programmes, or invest through corporate venture funds in promising start-ups. Both ways have important drawbacks. In the first case, 'intrapreneurs' often lack a real sense of autonomy that allows them not only to improve the existing models, but also to explore new growth opportunities. Conversely, externally, direct investment in promising start-ups does not rely on the company's strengths, and that then leads up to another challenge: that of integrating the entrepreneurial ventures into the main organization.[1]

You won't win by forgetting who you are now and 'going back to the garage,' but you might if you take a clear look at your company, its circumstances, and your opportunity with candour and a discerning eye.

SUMMARY

- Reaching back can illuminate the way forward.
- 'Entrepreneuring' means to act in an unconstrained way and create value that did not exist before.
- We can all engage in entrepreneuring in the right circumstances.
- 'Re-entrepreneuring' rejuvenates established organizations.
- It is the organization's primary adaptive mechanism in a volatile and uncertain environment.