NOTES ON THE PRACTICE OF CORPORATE ENTREPRENEURSHIP

Charles Kiefer

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If you are someone with the desire to do something innovative, unprecedented, unfamiliar, unusual or simply different within your organization, ***The Practice of Corporate Entrepreneurship*** *should help you. What you want to do could take many forms. Maybe you have an idea you want to pursue that you think can make a difference to your customers or to your organization, or you might be looking for a way of standing out among your peers to advance your career. Whatever the case, you want to do it safely for all parties involved while maximizing the likelihood of success. Think of this document as a corporate entrepreneur's survival manual. Although there are no recipes for success, by following the method advanced here, you will be much more likely to succeed (that is, of course, if your idea truly has merit.)*

The Practice of Corporate Entrepreneurship is a compendium of notes, readings, and other material that have been prepared by Leonard Schlesinger, Baker Foundation Professor at the Harvard Business School, and me for our entrepreneurship students at universities and inside large organizations. It addresses material that is uncovered elsewhere, for example in two excellent textbooks: *Corporate Entrepreneurship* by Paul Burns and *Corporate Entrepreneurship and Innovation* by Michael Morris, Donald Kuratko, and Jeffrey Covin, or in two particularly good books for the entrepreneurial individual: Eric Ries's *The Lean Startup* and Bill Aulet's *Disciplined Entrepreneurship.*

Revisions. The corporate entrepreneurship field is developing rapidly and some of this material will likely become obsolete or otherwise need updating over time. You may have other comments, suggestions or requests, or you may simply like to be notified of revisions. If so, please visit http://www.innovationassociates.com/Practice-of-CE. Your email will not be used for other purposes.

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Terminology. As a matter of personal preference only, we will use Entrepreneur Inside (EI) instead of intrapreneur, corporate entrepreneur, internal entrepreneur, and others. And we will generally use New Venture Entrepreneur (NVE) for the classic entrepreneur acting on his or her own behalf instead of external entrepreneur, outside entrepreneur, and others.

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Introduction

In 2008, we began to research, develop, and build upon a set of ideas that seek to explain the logics of thought and action successful entrepreneurs use when creating businesses in conditions of high uncertainty.

Over the course of five years, we held seminars and workshops in various settings for hundreds of people who were interested in the subject, and we summarized what we learned from these practitioners in our book *Just Start—Take Action, Embrace Uncertainty, Create the Future* (Harvard Business Review Press, 2012). That book built on the groundbreaking research of Saras Sarasvathy at the University of Virginia's Darden School of Business on entrepreneurship as a method.

Follow-on research[*] at Babson College posited that Entrepreneurs Inside (EI) use precisely the same logic, although in different ways, as a consequence of being inside a larger organization of which they're not owners. Moreover, it became clear that the logic was being widely applied by people trying to do something innovative or unprecedented in an organization even when not in the pursuit of a new business.

In *Just Start* we coined the term *Creaction* for the logic that entrepreneurs use when they embark on a venture. We've changed the term here to Act Learn Build (ALB) because it emphasizes *action* and *building off the last step taken* rather than some previously constructed plan. Entrepreneurial products emerge from the interaction between the entrepreneur and their customers or users. In this way, the entrepreneur is like a painter—the painting emerging from the interaction between the artist, the paint and the canvas.

We are convinced that the intelligent understanding and application of the ALB logic can dramatically increase the likelihood of success for any venture into the unknown. The logic in part explains why entrepreneurs do the things that they do and why the myriad tools and methods of corporate entrepreneurship (CE) may or may not be effective in helping you and your organization become more entrepreneur friendly.

What is entrepreneurship inside a large organization?

For many firms entrepreneurship is now appearing, often reluctantly, on the agenda of executives leading companies and for people joining those firms or advising them. Large organizations and many business schools are trying to learn about it. While there are many definitions of CE it has generally been about building new businesses inside established firms—starting new lines of business or new product units, setting up new practice areas, opening offices in new geographies, managing spinoffs or creating joint ventures, and establishing firm-level systems and processes to support these efforts.

[*] http://elab.businessinnovationfactory.com/elements/experiences-entrepreneurs-inside

But the practice of entrepreneurship is much more widely applicable. It is actually required *whenever* a firm or individual ventures into *any* unfamiliar ("far from core") area in which success is significantly uncertain.

CE can thus be thought of as that subset of a firm's innovation efforts where uncertainty and risk are high and human initiative and persistence, often individual, is essential—that part of innovation where *entrepreneurial* thought and action is needed. This would include activities such as new products, markets, geographies, technologies, or business models.

However, CE is not limited to external or market interactions. It can also include actions to improve manufacturing and other processes or develop or improve other internal tools, even if not formally sponsored or sanctioned by management. And despite its name, *corporate* entrepreneurship is not limited to a particular legal form. It applies to any organization whose primary activities are scaling, exploiting and execution.

Why corporate entrepreneurship?

The need for CE is painfully clear to leaders in many firms. Efficiency improvement, M&A and even incremental innovation are now failing to meet the needs of large companies to grow. Radical innovation in large firms is declining dramatically. In the 1970s, approximately 50 of the worldwide top 100 innovations came from Fortune 500 companies; in 2006, just two did.

Large firms must now venture into unfamiliar territory to meet shareholder expectations. The benefits and business justification is clear and simple: Nagji and Tuff (*Harvard Business Review,* May 2012) found that companies who allocated about 70% of their innovation activity to core initiatives, 20% to adjacent, and 10% to transformational, outperformed their peers as measured by P/E premiums of 10% to 20%. (This is not a magic formula and the proper ratios will vary from company to company.)

But a deeper look inside those numbers is fascinating. Core innovation efforts typically contribute 10% of those gains; adjacencies contribute 20%; and *transformational efforts contribute 70% of the long-term, cumulative return on innovation investment.*

The implementation of CE is often poorly understood and managed—and inherently resisted. What approaches, tools and methods are available, and how does the large company and the EI acquire, employ, manage, and refresh them? These notes address the needs of three integral players:

The Entrepreneur Inside. How do you manage your boss, your peers and yourself as you navigate the larger corporate system and structures? How can you start a new business or do something radically new inside a corporation without "getting yourself killed in the process"?

The Entrepreneurial Manager. How do you manage the EI and work the systems and structures in which they operate? How do you participate in larger company-wide efforts aimed at making the firm more entrepreneurial and innovative?

The Executive. How do you, as a leader or advisor, foster and sponsor CE and create and manage the systems and structures conducive to entrepreneurial action?

Part 1: Unprecedented and Unknown

What we mean by *unprecedented* is that your idea is out of the ordinary for you and your organization. You might want to introduce a new product or service, or move an existing product or service into a new market. And your "venture" needn't be market- or customer-oriented at all; for instance, you might have an idea to initiate a new—or improve an existing—process, method, or tool within your company.

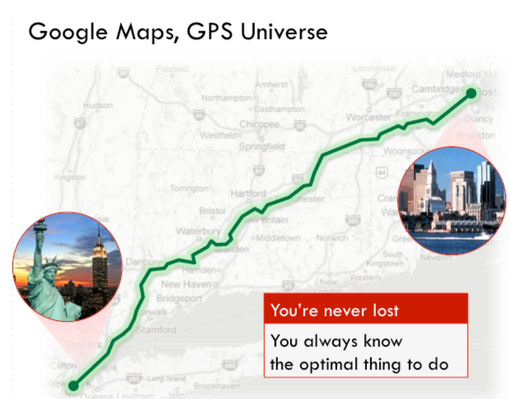
And odds are your idea carries some uncertainty—perhaps no one else knows whether it would even be possible; or perhaps the idea might be possible but the means of realizing it may be unfamiliar to you or your organization. You can imagine projects to fall along a spectrum that looks like this:

Known and Predictable ⟷ Unknown and Unpredictable

The thinking and action you need to employ when dealing with uncertain situations is different than when the path to success is well known. We'll start with how to navigate in highly predictable situations, or in what we call here "the Known."

The Known

This is a Google Maps universe. We know where we are and where we want to go. We know a lot—perhaps everything we need to—about the territory in between: the various roads we could take, speed limits, probable traffic jams, and the like. With no more effort than a few clicks, we can chart the optimal route based on our criteria of speed, scenery, favorite coffee shops, or whatever. It's a great feature of predictable situations—that we can know them so well. In theory, there is an optimal path, and as a consequence, there is often the "best" thing (even if it's not the thing you care about) and a best plan to get it.



We are all familiar with the solid, reliable logic of action for operating in this "known" universe. For our purposes, we'll call it Predict, Plan and Execute (PPE), and it looks something like this:

- Begin with where you are and what is *best* based on solid analysis.
- Develop (often exhaustively) alternative means of getting it.
- Evaluate the options based on your criteria and select the best one.
- Finalize your plan and assemble the required resources.

- Launch once all is in place.
- Monitor progress, and if you get off-plan, get back on (or replan if you must).

Most business situations are substantially predictable, and therefore applying PPE is entirely appropriate. Again, you know where you are and where you want to go, and in between lies known territory. Analysis in such situations works very well.

The Unknown

How well does this logic work under conditions of extreme uncertainty? The short answer is not very well, and in many cases, it utterly fails. Using it is always wasteful, and sometimes dangerous. Let's illustrate:

Imagine you are an adventurer like Indiana Jones, and you step on a hidden trap door and plummet to land on a solid surface but in complete darkness. You can't see, smell, or taste a thing. The only thing you can hear is the very faint sound of children playing, seemingly emanating from your two o'clock position. There are potential dangers in every direction, and things you'd want to protect, but no way of knowing what is before you without acting.

What do you do?

In our workshops, we've asked hundreds of people this very question and, not surprisingly, there is a common sense set of questions that leads to smart action.

- At the top of the list is: Where am I? Stop and take stock with all your senses.
- What do I want? Do I like it here, or do I want to be somewhere else?
- What resources do I have at hand? My whip? My hat? What else?
- Is there anyone around who might be helpful?

But that's about all the thinking and planning you can do, given that the situation is literally opaque. Any more wouldn't make any sense, and instead you would:

- Begin acting by taking small, low-risk steps (like dropping to your hands and knees). Maybe call out for help.
- After each step, take stock. What have you learned? What new assets or opportunities have you discovered?
- Build on what you find in your new reality.

We call this logic of thinking and acting in uncertain situations Act, Learn, Build (ALB) and it is the logic you want to use when faced with what we call "the Unknown." While you have successfully used it since birth, you may not have identified it as a coherent method and therefore use it less frequently and less skillfully than would be optimal.

Entrepreneurs have developed and tested this over many millennia as civilization has advanced. Most recently, Sarasvathy's research has shown that successful New Venture Entrepreneurs (NVE) employ ALB, not PPE, as their preferred mode. You also see it practiced by others who face unpredictable situations, such as scientists in R&D labs, surgeons encountering serious complications mid-operation, or field commanders in combat situations.

It only makes sense to use the right tool for the situation at hand. When faced with the *known*, you want to employ PPE. But PPE fails under conditions of uncertainty, where there is no perfectly “right” or “logical” thing to do and where past experience does not reliably foretell the results of current actions. There may be options to evaluate, but criteria for selecting the best one are hardly bulletproof. With the Unknown, you can’t do much planning, except for some possible contingencies, and you certainly can’t preassemble all the required resources simply because you cannot know in advance what will actually happen.

In the Known, you can, and largely should, *think your way into the future*, but in the Unknown, you can't. Instead, you must *act your way into the future.*

ALB within the typical large organization

While present in every large organization, your firm almost certainly neither recognizes nor validates its use and instead works against you while stating that it wants you to be innovative, entrepreneurial, out of the box, or whatever. ALB is submerged under the weight of the firm’s primary operating system that is aimed at execution, the source of scaling and making money—an operating system that was created and optimized to handle predictable situations.

Whenever ALB encounters this system, conflict and frustration occurs and entrepreneurship almost always loses. This conflict has been well known for more than fifty years. It is most commonly addressed by sequestering and shielding venturing activities, but this solution has its own known problems. We believe such conflict to be not only undesirable but unnecessary.

Most projects are pretty predictable and PPE is the preferred approach. Build your case. Plan it out. Sell it to the managers in your organization with the economic interest and resources to fund it. Some projects, however, have significant unpredictable aspects, particularly at early stages, and you will need to appropriately employ both logics. The challenges you face are as follows:

1. Are you skilled and fluent in each logic, particularly ALB? Chances are that you are actually adept, but your education and life may have trained you away from its use. So while you could, you don't use it as much as you should.
2. You may not be skilled at discerning when each logic should be employed. Generally, this translates to your using PPE over ALB when PPE is not appropriate, wasting time and resources and creating frustration.
3. You must navigate an organization that is likewise nondiscerning and thus interferes with and suppresses the use of ALB, compounding the waste and frustration and increasing the likelihood of mistakes. This includes being able to explain your unusual (and sometimes deviant) actions to other people, particularly your sponsors and your boss.

These notes aim to help you deal with these challenges. As you read them, keep two things in mind. First, organizations exist to do what a lone individual can't. Most large organizations function to produce something at scale and, consequently, are designed around a core value of predictability. Planning and then executing according to plan is highly valued, perhaps over everything else. This orientation is powerfully reinforced in the case of a publicly traded firm, where market premiums are awarded for smooth earnings and the penalties for variability (unmet analyst expectations) can be severe. In these, and most large organizations, anything that creates variance is bad news and generally fixed. Net, *large organizations are largely toxic to ALB.*

Second, *individual desire is essentially irrelevant* to "the machine" of your firm. People are generally treated as fungible resources within a larger system, and their personal desires are subordinated to the organization's needs. Some organizations are much more sympathetic than others in this regard but you shouldn't count on what you alone want to carry a lot of weight or generate a lot of support.

Part II: For the Individual—the Entrepreneur Inside

Act Learn Build (ALB) – Inside a Prediction-Based Organization

Just Start covers the five steps of ALB thoroughly. Let's recap what we said there, and as we do, look into the differences between how it is used by the New Venture Entrepreneur and the Entrepreneur Inside.

ALB is characterized by five elements:

1. Desire
2. Acting Quickly With The Means At Hand
3. Acceptable Loss
4. Bringing Others Along
4. Building On What You Find

1. Desire

While people have many reasons for venturing, if you look for a commonality, one is very easy to find. They *wanted* to do it. Entrepreneurs, inside or outside, are always doing something they want, or something that will get them what they want. Desire is all-important in any venture into the Unknown for three obvious reasons:

- You are more likely to get started.
- You are more likely to persist.
- You are more likely to be creative in solving the problems you encounter.

Rational desires are constructed by our intellect; they are reasoned and make logical sense to yourself and to others. Many, if not most, of our rational desires are stops along the way to something even more important to us. These *instrumental* desires often take the form of "I'm doing X because it's instrumental to achieving something else that I want." For example, we want to succeed in our current project because we think it will lead to a promotion. This in turn

will lead to a rewarding career, financial accomplishments, and financial security for my family and myself. In this illustration, the *end* desire is security—something that you want *simply because you want it*—and is the ultimate end of a logical chain of rational desires that are instrumental to its accomplishment. Other examples of end desires might be freedom, or good health, or a great family life, or the success of your children. These sorts of desires may lead to other things and contribute to other desires, but you would pursue them even if they led nowhere else.

Some instrumental desires are things you'd rather not do, but you grind through them anyway because they lead to something that you care about. Much of what we do in the normal course of our organizational employment is rational and instrumental in achieving other goals of being successful.

The real drivers of our behavior are emotional desires. We pursue these desires because of the feeling (often pleasure or wholeness) that is anticipated upon fulfillment. These feelings can be quite intense and deep. We generally don't know where our emotional desires come from or why. They mostly seem to overtake us, and they can even be irrational. Mostly, we don't choose them. To state what should be obvious, rational desires may win over emotional desires in the short term, but in the long-term emotional desires will carry the day.

Some desires really have nothing to do with you whatsoever, yet you pursue these things anyway—*for the sake of the thing itself.* Your actions are aimed at bringing something into existence on its own terms. There may be benefits to you, but they are not the primary reason for your efforts. An example might be the social entrepreneur who seeks to improve the situation of a group of people within his community. While he will receive a certain amount of personal satisfaction, the community's fulfillment is what he is driven by.

Certain entrepreneurs have this sort of relationship with their venture. They come to care more about the successful manifestation of their dream than they do any sort of personal reward it might bring. A metaphor used earlier might be the relationship that some artists have with their paintings. With luck, at some point, it becomes about fulfilling *what the painting needs* in order to be fully realized versus any sort of satisfaction it may bring the artist. This relationship provides a powerful objective perspective from which to work. You can see *what it needs* uncorrupted by your own needs and desires.

The EI and their manager. Much of what drives the EI is this sort of intrinsic motivation—"I just wanted to see if I can solve the problem" being the most common reason given. (The second most common reason was "to see my customers', or, in the case of an internal invention, colleagues' satisfaction.") So far, no EI we've asked has reported the primary motivation being somehow getting ahead in their career or receiving organizational rewards or bonuses. When we suggested these sorts of motivations, respondents expressed various levels of disbelief that the extrinsic rewards would be forthcoming, or of any significance if they were. By contrast, NVEs engage in entrepreneurship for diverse reasons. Sometimes it is the joy of solving a problem, but it could just as well be making money or fame or freedom from being bossed.

So, as a manager, you can pretty well be assured that your EI is motivated by personal and not organizational reasons. They may not tell you this out loud; they are typically pretty skilled at making it look like they are primarily in it for their firm. But their real motivation is almost certainly not part of a grand logic to advance their career. Your job, then, is to feed their desire while making sure that their personal motivations are aligned with the needs of the firm. What they need from you is help and encouragement, not promises of fame and fortune.

The passion and vision myths. As we wrap this section up, let's re-make two important points in *Just Start.* The first is that *passion isn't a requirement.* Despite what is suggested in the popular press, the founders of many, if not most, successful firms didn't have passion at the beginning. However, they did have some level of desire—at least enough curiosity to take the first step. *Vision isn't a requirement either,* at least not much of one. The advice "you need to have a vision" often goes hand in hand with the prescription to have passion, and it fails upon examination for the same reasons. It is exceedingly rare that the storyteller had much of a vision at inception. Jobs didn't. Gates didn't. Edison didn't. In fact, you might be unable to find any well-known entrepreneur who did. Instead, they started with something they were curious about or interested in.

Desire and vision evolve, much like love. Some of us are smitten at first sight, but for most of us, love occurs over time. You date, go steady, get married, and grow more deeply in love as life goes on. Desire and vision are like that; more often than not, they clarify and build over time.

The reported stories of these entrepreneurs are not lies. By the time the articles were written, the individuals in question were passionate and visionary, but those qualities were almost certainly not present at inception. The booby trap of these myths is that if you believe either must be in place before you act, you may never start. Moreover, if the advice were true, what can you do about it? You can't just order up a vision or passion upon demand. It's far better to get started with whatever desire and vision you have. Vision and passion will take care of themselves along the way.

2. *Acting quickly with the means at hand*

In the Unknown, extensive planning doesn't do you much good. A certain amount can be helpful in thinking through where you want to go and what it will take to get there, but Sarasvathy's research shows that successful NVEs typically don't plan their ventures in great detail. Instead, they begin acting as quickly as they can, using whatever is immediately available to them.

Your inventory of resources should include:

- Your own traits, abilities, and inclinations.
- Your education, training, experience, and expertise.
- People you can draw on right now in your personal, social, and professional networks that can bring tangible resources, credibility, and connections with other resources.
- Anything else that you can *immediately* lay your hands on and use, and not just hard assets. Customer relationships, when they can be employed, are extraordinarily valuable for the startup.

Of course, the more unknown your idea, the less you can pre-determine what things are assets and what is not worth paying attention to. Whatever is relevant will depend on the situation. Moreover, the most apparently insignificant thing at the time can later turn out to be vital; it is only in hindsight that we know which things were critical and which were superfluous. Consequently, there is no way to construct a theoretically right list of Means at Hand.

But while you don't know what you might need, you *always* know what you've got right now. Instead of waiting until you have the "right" set of assets to act, you act with what you've got. And every time you act, reality will change, however slightly. New assets or new opportunities will appear, and sometimes your desire may change.

All entrepreneurs work with means at hand. NVEs struggle to find better and more means (equipment, information, databases, reputation, access to markets and clients, etc.). EIs, in contrast, often have these assets that a NVE could never hope for immediately at hand, but they struggle with how to acquire and harness them. It's one of the main factors (next to income security) that keeps the EI within their current employer.

Find a prince. There is one Means at Hand you definitely need, which is time to pursue your venture. Unless you are acting clandestinely, your actions will be observable to others in your organization, and your employer and/or your boss almost certainly feels justified in having some input on how you spend your time.

Your time is a subset of what we can call sufficient autonomy—enough freedom to be self-directed without undue interference. This includes being able to confer with colleagues, solicit their help, and much more. And as mentioned above, you also may need other assets of the organization.

The best, and perhaps only, way to acquire Sufficient Autonomy and other needed assets is to find a "prince" or "princess." Just like Columbus had Queen Isabella, and Lewis and Clark had Thomas Jefferson, you need someone with the authority, both tangible and reputational, to permit you to progress in the face of a speculative, nonquantifiable return. Your princess is not necessarily your boss, and if she is not, then it is essential that you gain at least the tacit permission of your boss. We will have more to say about this later.

Do not get caught up in over-planning. What can you do with what you have right now? Every action yields new information about current reality. Your less-than-complete formation of your desire and a plan will clarify as you move along. Every action yields a new current reality, new resources, new knowledge about what works and doesn't, or new or refined knowledge about desire. You want evidence that your idea has merit and can ultimately be realized, and evidence is always better than anyone's prediction could be. More action yields more evidence.

This might strike you as quite impulsive and rash, but there is a second principle to be observed simultaneously that renders it safe: Acceptable Loss.

3. *Acceptable Loss*

Most business decisions are made on the basis of expected return. You calculate the "size of the prize" of a particular opportunity and the cost to achieve it, and then you adjust it for any risk you think might be present. This one calculation, the risk-adjusted return, governs whether you should pursue the opportunity. If you work at a big company, this approach should sound very familiar. It's a logical result of years of conditioning to maximize shareholder wealth.

But what makes enormous sense in a predictable setting makes no sense at all in the face of the Unknown. Entrepreneurs instead use the simple yet powerful principle of Acceptable Loss. Instead of doing anything beyond *estimating* the size of the prize ("how big is it?"), entrepreneurs ask "is it big enough to interest me?" The venture's potential has to be so large in economic or other value compared to the cost of achieving it, that a detailed analysis is unnecessary. Then, they govern the actions they take by the degree and kind of expense they are willing to make should things not turn out the way they hoped. This requires answering two straightforward questions: What can I *afford* to pay to take the next step? And what am I *willing* to pay to take the next step? Together, these make up the calculation of Acceptable Loss. Each step they take is governed by whether the costs of that step are *acceptable to them.* (If this sounds like entrepreneurs don't relish risk, you'd be right. They don't like it that much. One study identified them as having a lower risk appetite than bankers.)

Here is another way to think about Acceptable Loss. When things are really uncertain, you are really buying an option to find out what will happen next—the option to take the next step beyond the current one if you end up wanting to. In this situation you want to pay as little as you can, and certainly not so much that you can't take subsequent steps unless you are throwing a final "Hail Mary." You are *spending* not investing. Only when the outcome is clear enough to quantitatively evaluate can you invest.

In the Unknown, there is no guarantee of the success of your next step. But the more times you have at bat, the greater the possibility of getting at least one hit. That's the logic of Acceptable Loss. Keeping the cost of each step low allows you to get more swings and stay in the game longer.

The principle of Acceptable Loss is also transformational in that it converts the uncertainties into certainties. In the Unknown, by definition, you don't know the ultimate market, the cost to get there or the time it will take to get there. But you do know precisely how much you are prepared to lose and you do know the resources currently at your disposal. With Acceptable Loss, then, the "only" uncertainty is the outcome of your next step and once Acceptable Loss is fixed, risk actually disappears.

Acceptable Loss depends not on your venture but on you and how much you want and can spend. It will vary even over the course of your own lifetime. For example, you may be willing to risk more when you are early in your career and don't necessarily plan to stay with your employer; less mid-career when your kids are approaching college age; and then more later, once such major expenditures are behind you. We often see the boldest EIs taking flight near the end of their career when they seemingly have nothing to lose.

The currencies of Acceptable Loss. One obvious expense is *financial*. Another is *time*. You want to guard this in the same way you do money, for example by setting a time limit for your venture, both in terms of hours per week and duration of your pursuit (*i.e.* weeks or months).

Currencies of Acceptable Loss

- Money and Hard Resources
- Time
- Opportunity Cost
- Reputation & Social Capital

A third is *opportunity cost.* While you are working on one thing, you can rarely be working simultaneously on another—and that other thing might be potentially better. The NVE has to prioritize where to put her energy among various ideas she may have. While the same may be true for the EI, the dominant trade-off for him is between his venture and his day job; time spent on the former is time away from the latter, which may prove detrimental to bonuses or career advancement. Whether NVE or EI, you can and should estimate these costs and make a thoughtful choice. Your employer and your boss legitimately face the same choice with regard to *you*. What's best for the firm: encouraging you to focus on the job you are paid to do or investing into your venture into the Unknown?

Reputation. The fourth currency is *social capital.* NVEs spend their time worrying about money, time, resources, and opportunity costs. Reputation enables the NVE to acquire these means, but venture failure in the commercial arena is not much of a smirch on one's record these days and can even be a badge of honor. It's completely reversed for the EI. Generally, they have, or can get their hands on, the resources for their next step; successful businesses, after all, have ample resources.

The single biggest difference between the NVE and the EI is concern for reputation—probably the biggest deterrent to entrepreneurship within the large organization. Intrapreneurship is actually dangerous. A single failure can stunt your career, not so much because of the failure itself but because people can begin to wonder about your judgment. In many places, an incidence of second failure can be a career ender, at least in terms of advancement. Even simple missteps in managing relationships can quickly destroy a reputation and can lead to loss of autonomy or access to resources or the trust of others. Thus, EIs are mindful and very careful of the size of the risks they take, how public they are about their actions, and how they are perceived within their organization.

Remember that all of this is equally true for your boss or other internal champions of your endeavor. They are every bit as concerned about their reputation as you should be, and have probably more invested in it than you have.

Acting quickly. Now we return to how to start quickly. It's pretty simple: when you want something, and your next step is within your means and within your Acceptable Loss, the most natural thing in the world is to act. Under these circumstances, it actually becomes unnatural *not* to act. This is the secret of seasoned entrepreneurs and why they seem so impulsive. They drive the cost of their next step down to the point where it makes no sense not to act, given their drive to accomplish something they want. So they construct and play a game in which no one decision is likely to be fatal and wherein moving quickly and correcting mistakes as they go along are more intelligent than overthinking.

Instead of over-planning or dwelling on what you're going to do in the long term, your best question is always, What am I going to do next? But as you do act, be very mindful of the Acceptable Loss as your company defines it—financial, reputational, and every other aspect. You are probably not spending much relative to the company's overall resources. Maybe you're even acting on your own time. But your actions could create real consequences and costs for your organization. For example: Say a test product blows up in the face of a customer and the resulting negative publicity does real damage to your company's brand. While something this extreme would be highly unlikely, nevertheless your organization and particularly your boss will rightfully go to extremes to prevent such an occurrence. Damaged hard assets can be fixed with money; your reputation, your boss's, and your firm's may not be.

4. Bringing others along

You might be able to accomplish your project entirely on your own, but more than likely, this won't be the case. Successful entrepreneurs aren't loners; they involve others. Why?

First, it *expands their resources,* both tangible and intangible, things that they would never have if they were on their own.

Second, it *spreads the risk*. Each player holds a small part of the overall risk within the bounds of their Acceptable Loss. Thus, if the venture fails, no single player is hurt too badly.

Third, if other people have spent their resources, time, or reputation to help in some way, it *validates the entrepreneur's judgment* and helps ameliorate concern about whether the idea is good or not.

Fourth, the resources and credibility of collaborators *enables them to get started immediately,* and then acquire additional resources as they go along.

Here's how all this works in practice. You get started with your Means at Hand. You interact with colleagues, gaining access to their expertise, equipment, time, access, and whatever else you might need. Each of them brings more assets, which expands the cycle of resources available to you. Meanwhile, each of these colleagues is employing his or her own calculation of Acceptable Loss in deciding how much to risk; they contribute what they want and can afford. Through these interactions, your project is forged, and often the final result ends up different, better than you imagined in the beginning. While anyone can be a potential contributor helper, or advisor throughout this process, it's the people who make a significant commitment who get a say in shaping the outcome, which can change based on the commitment they make and the resources they bring.

Enrollment, the essential complement to selling

All throughout, you are engaged in two distinct but complementary modes of interaction with your colleagues: Sales and Enrollment. Let's distinguish between the two. When you are selling, you are persuading; for example, convincing someone to buy or to do something. When something is sold, it is essentially a tangible transaction—an exchange of real things like resources or influence. Rational arguments are made, often incentives are involved, and there is generally some sort of quid pro quo.

By contrast, enrollment is a process of sharing and inspiring, with the aim of having the person "place their own name on the role." It is an emotional, even spiritual, transaction—intangible and rather like a gift.

The tools of each mode are quite different. When selling, we employ things like cost-benefit analysis and various other negotiating and deal-making techniques. Enrollment, on the other hand, is based on fundamental conversations during which people are touched. There are no deals to be made, and any incentives or payments will corrupt the process. In a sales transaction you, personally, may not be that important. The features and benefits speak for themselves. In an enrollment, it's just the opposite. Who you are as a person is vital because at that point people are enrolling in you more than your idea.

Enrollment engenders propagation that endures after the initial encounter. In selling, the transaction can be complete in and of itself; nothing necessarily needs to happen later. When enrolled, a supporter's contributions can be ongoing, active and direct, including being out there talking about what you are doing and effectively networking on your behalf. You can find yourself getting calls from people who heard about your venture from someone, who heard about it from someone else.

Bringing others along requires both Sales and Enrollment. You certainly can sell your idea on its economic merits alone without enrollment; that is, if you have those merits. But often at conception, you don't. Your anticipated benefits are speculative, so all you have is enrollment. Even if you employ selling alone, you will be missing an opportunity to establish ongoing relationships that lead to more than just the surface transaction. Equally, enrollment without sales is also fine; you will get people out there talking about you and your product. On the other hand, if someone is so "sold" that that they actually take action in your favor (for example, by providing resources), their commitment will be even higher. Generally, you will want sales and enrollment in tandem because the combination of the two will garner you committed stakeholders both with skin in the game and the dedicated spirit for a fruitful long-term partnership.

How? The principles that lead to successful enrollment are simple. Have a vision that you personally care about. Share that vision honestly, along with your natural enthusiasm. Don't fake it; people will see through this attempt to manipulate them. Ask others for their honest response to what you have shared, and if a connection is made, cement it with finding a specific action the person can take in favor of your venture. Don't try to get them to enroll. The only person who can do that is them. Sometimes a person will enroll and other times not; that's just the way it goes. Your job is to offer the opportunity to discover whether it (or you) is something that they care about. Remember, going into the Unknown isn't altogether rational. People will support you to the extent that they believe in you; this is even more important than belief in your idea.

Managed (or progressive) disclosure. Enrollment doesn't mean blabbing to everyone you run into. NVEs can do that with relative impunity (as long as they have filed a provisional patent application) and the benefits probably outweigh the cost. Contrarily, inside an organization, the price of overdisclosure can be high, so you need to be more careful. EIs carefully manage how much they share and with whom. There are good reasons for this. For example, you want to avoid public statements that others equate with commitments against which you should be measured according to the rules of PPE.

You also want to avoid the attention of people who offer no real help to you but who think they have a say in how you should proceed or not. In many organizations, you will end up "drowning by PowerPoint presentations" or continually be referred to people who have no ultimate authority of approval or veto, but who assume the right to question your project, often to death. Some of their most common techniques, often innocently employed in the service of reducing risk, require you to clearly identify how you will monetize both your result and your plan to get there. These people suggest further study before action or insist you touch base with an ever-expanding list of players who can't contribute but must be consulted.

So, while EIs say a lot to the people who matter to them, they are careful and considerate about what they say. They deliberately keep the rest of the organization in the dark. There is no formula for this Managed Disclosure, but it's not hard to be thoughtful about it and the reasons why ought to be clear.

Find or form a tribe. One of the biggest difficulties for the EI is that they have no one to talk to, explore ideas with, or gain emotional support from. The NVE in Silicon Valley can walk down University Avenue in Palo Alto, accost and invite a stranger for a latté in a nearby Starbucks, and thereby spend an hour with a like-minded person in deep, productive conversations. Not so for the EI. There is essentially no kindred spirit with whom to brainstorm, and these folks report feeling quite lonely. They typically instead rely on popular books and conferences, which definitely can help, but are certainly incomplete.

In the face of this, you need to extend real effort and time to form your own tribe, if you can't find one to join. This group will be different from your colleagues who are interested in your idea, and instead will consist of people who share an interest in entrepreneurial action, particularly within the large organization. Part of the social norm is that they care about you as well. Such groups exist in many metropolitan areas now. Find one or create one yourself. Face-to-face meetings are best, but you can find and join one or more online groups as well. The bottom line is that you should find a way. You need the support of people who "get" you.

Get a partner. You can go it alone if you have to, of course, but many of us find it really helps to have a partner in advancing an inside venture. One study of 50 entrepreneurial ventures showed that in 42 of the cases, people started out by finding a partner before they had even generated an idea.

Just like in life, some of us make it through fine alone, but most of us get married. Your venture isn't that different. It's likely to be tough, and it's simply easier when you have a committed partner—someone who complements your skills, to whom you can make commitments, and who will hold you accountable, help you sort through your thinking, bring fresh ideas to the table, and more. So, if having a partner isn't to your liking, fine. But if you realize you need help acting on a good idea, or you simply don't like being alone, you should consider finding a buddy.

Peers. First, last, and always, your job is to enroll peers in your idea and in you. Assuming a reasonable idea, your vision, enthusiasm, and integrity are key. You probably will want a few people working with you for all the classic reasons that venture entrepreneurs do. They bring resources you don't have. Collective creativity is almost always better than solitary. The commitment of a few people, especially well-regarded ones, builds credibility for the project and for you. Finally, it's no small deal that EIs are lonely and often have no extensive personal support system within an organization. As a human being, you have important and valid social needs that should be met in the workplace.

But it's important that you not enroll everyone, at least right off the bat. Even though it's very appealing to ask, How do I get everyone committed?—it's generally the wrong question. A better one is, what's the *least* amount of commitment I need in order to take the next step (and to grease the skids for subsequent steps)? Here's a handy and helpful way to think about it.

Consider the various stances an individual might take towards a venture: *Make it Happen, Help it Happen, Let it Happen, Be Unaware,* or *Keep it from Happening*. (Beckhard, Richard, and Reuben T. Harris. *Organizational Transitions: Managing Complex Change.* Reading, Mass: Addison-Wesley Pub. Co, 1977, pp 93–95). Who are the people who influence your venture and in which stance do they need to be? Where are they now? How can you change that stance, if necessary?

Colleague or Stakeholder	Why it could be "big" or "valuable" enough for them? or What is their interest and how intense is that interest?	What their Acceptable Loss is	"Keep it from happening"	"In the dark"	"Let it happen"	"Help it happen"	"Make it happen"	Strategy for moving them, if needed
			□ →		☆			
				□ ☆				
					☆	←	□	

□ Where they are now ☆ Where you want them to be

Most people can simply stay *Unaware* or *Let it Happen.* If someone important is in a *Keep it from Happening* mode you need to help them change their mind, at least to *Let It Happen.* There are probably a few people who need to be encouraged into a *Help it Happen* mode.

What would it take to get them excited? What would be a *big enough* prize to interest them? There may be some whose enthusiasm you may have to curtail. Remember, the operative criterion is the *least* amount of commitment necessary for the next step. By putting a little thought into this and using the chart below, you can pretty quickly develop a strategy for the relevant players. As you do, be sure to keep in mind their Acceptable Loss, at least insofar as you can understand it. Their situations and calculations will be different than yours.

5. *Building on what you find*

This principle comprises two parts: reality or *What You Find*, and what you do, or *Build on it.* Let's start with reality. Having a firm grip on reality is more important than either a clear vision or passion. Professional creators—such as entrepreneurs and anyone else who brings something into being that has never existed before—need to know how things really are. If you're not working from an honest and current inventory, you will probably be operating under flawed assumptions and certainly under flawed perceptions. At best, you will be basing your actions on what reality *was* but is no longer.

In the face of the Unknown, action trumps everything, including overthinking. You can never know for sure whether your vision, your plan, or even your immediate next step is correct until you take action. You may believe you know how reality will respond to your actions, but until you actually do something to find out, you'll never be sure. So try something. It will either turn out as you hoped—or it won't. Regardless, you have learned something, particularly when it hasn't turned out the way you thought it would. The good news is that, at this point, you are no longer speculating about what might happen; you *know*. Now you have to figure out what it means and what you are going to do next.

Surprisingly, unexpected outcomes can actually be a good thing. Research shows that skilled entrepreneurs turn these surprises into advantages and transform them into assets. Maybe the new situation presents an unseen opportunity. Or, maybe you can, as others often do, build it into your product or project as a powerful feature that yields an unanticipated advantage. In an uncertain world, it is all about *taking advantage of uncertainty* and treating unexpected events as opportunities.

Any action causes a change in reality; thinking does not. Since reality is always changing as a result of action, you can never get Current Reality "right," at least, in a once-and-for-all way. So the recipe is to keep acting and then taking stock. This doesn't necessarily come naturally. You need to make it a habit; and if you don't, you are likely to miss something important—a new asset, a new opportunity, a new discovery. Of course, desire and vision are important, but these will develop and intensify over time. The most important, and often more difficult, challenge and habit to form is to be accurate and honest with yourself about Current Reality.

Reality is your friend for another important reason. In most cases, that's where you will find your insight into your next step. We have had the experience of sudden insight accompanied by that moment of surprise—even chagrin—"Wow! Why didn't I see that before?" Two important ideas are implied in that question. First, the solution or insight *had been present and available to be seen* for a while—perhaps a long while. Second, your real problem was not what you thought it was; it is instead that *you hadn't yet seen the available solution.* So get comfortable and skilled at looking at reality for something new and fresh—something you haven't seen before.

In the Unknown you need to work with whatever comes along. Use everything at your disposal, even surprises, obstacles, and disappointments. And remember, no matter what you might think about your problem, at any point in time, you are only one thought away from an insight that can dissolve or turn your problem into an asset, or give you a new vision of what you want to do.

Your Organization

Your organization is likely pretty good in predictable situations (at least, it ought to be), but in most cases also pretty bad in unpredictable ones. You are going into the Unknown, and it's always nice to have as much of a map as possible. We may not be able to say much about the external environment in which you will innovate, but we can describe some important aspects of how your organization may respond and how you will likely be impacted.

We've talked about one key concept already: the entrepreneur's motivation is desire, and your organization was not constructed to make meeting your desires as an important priority. A larger enterprise is not designed to start things but instead to scale things up efficiently. This requires integrated processes, procedures, design, and culture. Most of these are unnecessary towards—and many are antithetical to—doing something new. Yet they will be imposed on you, nevertheless, generally unconsciously.

If it seems like your organization is actively working against you, it's because *it is*; this is part of its mandate! Large organizations abhor variance and volatility. They treasure smooth, error-free production. Ventures into the Unknown are rarely smooth and never error-free. New, risk-involving projects started from within are the sorts of things that introduce volatility, and the organization's system at large tries to stamp it out.

The collision of two systems

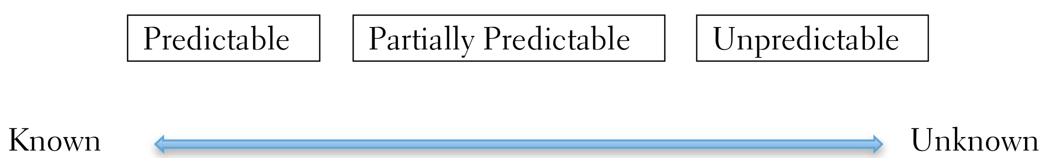
People talk about and blame the organization "system" all the time. Because the term can mean different things to different people, we'll define how it will be used here. A *system* is a set of interacting or interdependent components or elements that form an integrated whole. The relationships among the elements constitute the systemic structure, and this structure governs how the system as a whole characteristically behaves. For the purpose of this section, let's term this the Operating System.

The Operating System includes and is more than an organizational chart. There are other "hard," observable components, such as what information is sought and measured and who gets to see it; what decisions are made, how they are made, by whom, and how quickly; what is formally rewarded or sanctioned in the short and long term; and much more. It also includes important "soft," cultural elements, such as the mental models and assumptions of people, unwritten rules of the game, and social sanctions. Essentially anything that significantly influences individual and organizational behavior is part of the systemic structure. A well-designed, well-functioning system produces consistent behavior. So if you want a different behavior, you must alter the systemic structure.*

The primary Operating System in any large organization is the production–execution–scaling system. Different writers have different terms for this system with somewhat different meanings, but for our purposes these differences don't matter. We'll call it the Production Operating System, and its logic is PPE.

The Production OS is built up over the life of the organization, based on two things: the organization's aims and its errors. Goals are set and structures are put in place to make the achievement of these goals easier, more reliable, and less costly. As errors are made, corrections (new or altered structure) are put in place to ensure they are not made again. Over time, the system and the people within it become ever more efficient, predictable, and reliable.** One consequence is that, with perhaps rare exceptions, organizations typically grow up neither suited for nor practiced in acting in the Unknown.

PPE is the logic for the Known, and ALB is the logic for navigating *and* creating in (the Unknown. In reality, most of what we face in life is what we will call the *Partially Known,* and here is the source of two fundamental navigational errors, either of which can be disastrous.



The most dangerous possibility in the short term is treating a situation that can and should be analyzed, predicted, and thought through as if it were unknown. Foolish people making this error leap into action prematurely, often with suboptimal and sometimes serious consequences.

Most organizations are pretty well defended against this sort of error. Instead, they, like many smart individuals, tend to make the mistake of treating a Partially Known situation as if it were *wholly* predictable. In so doing, they (1) quantify things that are, at best, intelligent guesses, (2) equate situations that are in some ways fundamentally different, (3) extrapolate off small, questionably relevant data points, and (4) generally employ "discount rates" and "betas" to isolated, very unknown situations. They fool themselves into thinking that by using statistics and other analytics they are somehow reducing uncertainty. (This is somewhat like estimating the number of pins a first-time bowler will fell on her first roll. Sure, it will be fewer than 11, but

* There are many lenses through which you can view organizations. Formal design and culture are only two. The political nature of organizational life is a third important one for the Entrepreneur Inside. But we will have to wait until a later time to address whether there are political issues that are peculiar to corporate entrepreneurship.

** This is the intended consequence of system evolution. Along this evolutionary route there are, of course, unintended consequences, some fortuitous and some not so at all.

anything beyond that has virtually nothing to do with math.) The net result is that they overthink and overplan in situations where intelligent action would get them to business success more quickly and often at lower cost and risk. We'll have more to say about this in the next section.

More critically, for successful innovation, the habitual employment of prediction to the exclusion of ALB shuts off the discovery of novel opportunities.

Four Common Challenges

The moment-by-moment collision between the Production OS and ALB systems is reflected in four challenges frequently reported by people attempting to venture into uncertain areas.

1. Rigid application of standard procedures

Despite their size and inherent nature, ventures must submit to existing processes and procedures. Particularly problematic are classic project planning and monitoring methods requiring laborious advance planning, estimations, and analyses, followed by frequent reporting that consumes time and often delays execution. Subsequent forced replanning results in plowing through the same processes again, thus consuming more time and resources, often resulting in yet further delays in execution.

2. Slow decision-making

Closely related is slow decision-making based primarily on historical criteria. Decisions that are made within a day by a startup's management can take months within the large organization. Multiple presentations are made, each resulting in further questions that require answers. The process repeats and often results in a slow "death by PowerPoint." Even when the venture is victorious, the internal venture ends up cycling the learning loop on a monthly basis (if lucky) versus the possible daily cycle of the startup. Which do you think learns the most about the Unknown in a given amount of time?

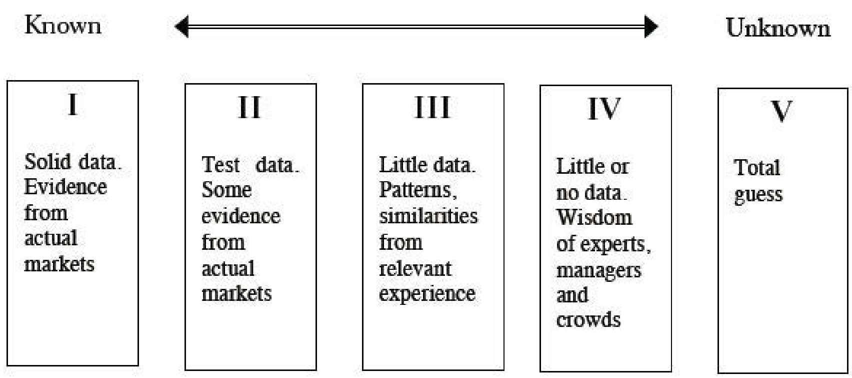
3. Rigid organizational divisions

It is well documented that contact between the innovator and the ultimate customer is a critical factor in successful innovation. The reverse is equally true; absence of that contact breeds failure. Yet in many large organizations a different organizational unit "owns" the customer and, for reasons valid to them, they control and often block the EI's interaction with actual customers. Surmounting these organizational barriers can be formidable, if even possible. Finessing them is very dangerous.

4. Application of classic metrics, particularly financial

Of all the difficulties encountered by Entrepreneurs Inside, the one that draws the most scorn is the requirement of preparing Discounted Cash Flow (DCF) or Net Present Value (NPV) analyses for efforts at early (premature) phases in which uncertainty is exceedingly high. Ventures are required to answer basic investment questions such as: How much is what you want to do worth? What does it cost? In the Known, the sharper the answers to these questions, the better. But in the Unknown, these classic metrics are dangerous and often stupid.

Many intelligent people have argued against use in this way.* No one recently has argued that it makes sense, yet we keep doing it. To understand why and what is a better alternative, consider



five states that progress along a continuum and that a venture might be in at a given point in time.

At the outset, let's observe that *proformas are useful in all five situations*. However, their value in states IV and V is different from I through III, where they can legitimately become part of a project plan and be monitored against. By contrast, in uncertainty proformas help you think through steps to be taken, the ultimate business justification and establishing a learning agenda. They force you to be explicit about your assumptions. Detailing them out, however, is almost always a waste of time.

Why is applying DCF flawed?

In perfectly predictable futures, DCFs are mathematically accurate. Consequently, in states I through III, performing these calculations makes good sense. The great 20th century financial inventions of the time value of money and probability (expected value) theory allow accurately reducing complexity to a couple of numbers.

In states IV and V, such calculations make no sense, especially if there is a rational alternative. The reasons have been well argued before. You may already know this and can therefore skip this section. However, you are almost certainly going to encounter people in powerful positions who don't. To move forward on your venture, you will need ammunition. Here's a brief summary of the arguments against DCF calculations.

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* For example, see Innovation Killers: How Financial Tools Destroy Your Capacity to Do New Things, (Christensen, Kaufman and Shih, *Harvard Business Review* 86 no. 1 (January 2008.)

The formula doesn't work

First, the obvious: In states I, II and III, you can predict, with varying accuracy, how long a venture will take, how much it will cost, and how big it will ultimately be (if that's important). In states IV and V, you cannot predict the ultimate market potential with much accuracy. Nor the slope of the ramp to that potential. Nor the product life. Nor the development time before launch. Nor the development costs, although these can be controlled. *DCF calculations are very sensitive to all of these unknowns.* Moreover, you don't know, nor can you know in advance, whether (or how many) fatal obstacles you will encounter. Perhaps most importantly, the "it" that you model at inception and early stages almost always changes as development progresses, and sometimes a lot. You rarely end up with the thing you imagined when you started. So at inception, you are modeling and deciding on a product that likely will never exist.

On top of this serious problems arise in selecting a terminal value to your DCF calculation. For it to be mathematically sound this value must be established only at a point where the growth rate of future cash flows is less than the cost of capital. You might think that by establishing one point for all projects, for example five years, and then applying it consistently to every project you will be at least comparing apples to apples, but remember, the very reason for venturing into the Unknown is the hope and expectation for an unusually high, *long-term* cash flow—not the same apples at all. Unless you have a history that shows that your Unknown projects reach this "stable" state at the same time as your Knowns you will be using a method that you know is almost certain to be unsound, and that you hope and expect will be seriously wrong. Where is the logic?

The statistics don't work

Compensating for all this uncertainty by risk adjusting the discounted imaginary future cash flows is mathematically wrong as well. Yet these risk-adjusting calculations are so habitual that managers rarely, if ever, consider the math that justifies their use. You simply can't get around all the uncertainty by saying, "It's 75% likely that it will make it, so we'll discount your projection by 25% before we decide about letting you go ahead." This sort of reasoning is simply bad math. Why?

Imagine that your management is more sophisticated than simply cutting your most likely case by 25%. It has asked you to provide NPVs for three proformas—best case, worst case, and most likely case. This may be useful in helping you and your boss think through important business issues, but making the "plunge" decision on the NPV of these proformas is neither smart nor sound. Financial theory prescribes that these scenarios be probability weighted; *e.g.,* a probability of .10 for best case, .60 for most likely case, and .30 for worst case. But wait! This is high uncertainty, so maybe it should be .60 for worst case and .30 for most likely. Or maybe .02 for best and .70 for worst. Or … On what basis are probabilities to be assigned? Aren't they totally subjective judgment calls? And if so, why would they be any better with elaborate analyses?

The underlying math breaks down here as well. Risk-Adjusted NPV rests on calculating an expected value *over a large number of repetitions.* For it to be valid, you must claim statistical validity on two fronts: that you have a sufficiently large population with known, shared characteristics and that the contemplated venture shares the characteristics of that population. Say you resemble a drug development company in that you have a history of hundreds of ventures into the Unknown where 90% failed to blossom and were shut down, 5% met projections, and 5% exceeded expectations tenfold. If the venture under consideration were characteristically the same as your history, you could legitimately calculate an expected value of 55% and a corresponding discount factor. And with that sort of population, you can also run the statistics on how confident you should be in your answer. In this illustration, again with a large history, it might be 95% or higher.

While longer-term experimentation can allow you to refine your assumptions and develop better and more honest statistical justification, until then you are really just fabricating those probability adjustments. Even with 10 or 15 experiences, the math says that the confidence in your calculation probably drops to about 65% or less. What do you do then? Discount by another 35%? Statistics don't really work that way, so you shouldn't either. And how do you know that the contemplated venture reflects your other examples? What if you only have a few? Or, let's be honest, none? And in conditions of high uncertainty, how can you even know the answers to these questions in advance?

Managerial wisdom and human bias

Now, consider the choice between two hypothetical alternatives with *identical* investments and expected returns. The first offers a 99% chance of $100 and 1% chance of nothing. The second offers a 1% chance of $9,900 and a 99% chance of nothing. Even though the expected return is identical, the risk-averse investor or typical company financial manager will always pick the first over the second. What if the second alternative offers a 5% chance of $9,900 and a 95% chance of nothing? Even though *the expected return is five times higher,* won't the risk-averse investor who favors stable returns pick the first? And again, of what value is fine-tuning DCF calculations?

You might think this is where managerial judgment comes in, but this would be false confidence. Operating under cognitive distortions inherent in human beings, people (managers) see patterns when none actually exist, underestimate uncertainty, overlook potentially important information that is often obvious, and overestimate their knowledge, skill, and power to control the future. They tend to simplify complexity on every dimension. And cognitively, you simply must. To be sure, there is comfort in quantization. But this is not the same as accuracy, knowledge, or wisdom.

Few if any managers have any experience with venturing into the Unknown, and an objective evaluation of a particular manager having an abnormally high aptitude would require a few years' history *of multiple good decisions* concerning far from core ventures. Moreover, there is good reason to suspect that managers are *not* good at it. One company discovered that in evaluating these ventures, its management was wrong 88% of the time. Finally, even longtime professionals in this area—the VCs—are said to have a one-in-ten or one-in-twenty track record of being right.

Roll all of this up and the discount factor that you rationally set based on human judgment would be so steep as to preclude funding any venture in the face of other alternatives, the outcomes and value of which are far more certain and frequent. Incidentally, none of the above has been lost on Angels and VC. None of them are using NPV analyses these days. Instead, they ask themselves four questions: Is the market space to be addressed really big? Can the proposed venture have a big share of that market? Do we believe that the entrepreneur and the team have the character and technical and business acumen to be successful? How much of my money do I want to spend to find out? These turn out to be the good criteria for the large company too.

To summarize

Using DCF to make the "plunge" decision in states IV and V:

- Wastes time and resources, not the least of which is human energy and enthusiasm.
- Focuses the team on meeting the approved plan rather than intelligently pivoting to more attractive opportunities, all the while instilling or reinforcing fear of failure.
- Delays action that would result in learning and reduced uncertainty—delays that keep you out of the market where you can learn and gain real evidence. In the time it takes for you to do your financial justifications, the stereotypical garage entrepreneur will have interacted with their market dozens, maybe even hundreds of times, learning each step of the way and gathering real-world evidence and experience. You will have learned next to nothing. Slow decision-making and slow learning is insane in the startup world.
- Undervalues the potential of a given idea and may stop you from doing something that might otherwise have been wildly successful.
- Is mathematically dishonest while pretending just the opposite.

While DCF provides a sense of comfort, confidence, and certainty, it is illusionary.

Everyone knows this, but we keep doing it.

Why? There are at least five reasons, three good ones and two not so good. Let's examine the leading contenders and their respective validations.

(1) We must manage finances and report accurately.
(2) We need to compare alternative options for the use of resources and reduce the possibility of bad choices or the bad use of resources.

These *are* valid corporate needs. We must be good financial stewards and reporters of shareholder resources. This means being able to compare alternative investments and measure performance in order to learn.

(3) Protect the reputations of the EI and his or her management

This is another valid and understandable reason, but a psycho-social one. We need to maintain reputational capital for both psychological and career reasons. While you won't get fired or even formally sanctioned for a bad outcome, you will get dinged for "not having thought it through," even when that judgment is made in retrospect.

(4) Built into formal decision-making processes
(5) Force of habit

The explanation, "because that's the way we do things," or doing something mindlessly is not smart or justifiable.

The biggest reason?

However, the biggest reason may well be "we have no alternative." Yet we need to be rational managers, and so you might say, "Yeah, but NPV is better than nothing." But on what evidence is that claim based? How do you know it's not seriously wrong? The good news is that there is a rational alternative that stands up to examination. It's based on the observation that since states I through III are different from IV and V, *the mindset in the latter must be different.* In the former, you are trying to select the best alternatives and stop unpromising ventures. In states IV and V, you should be trying to move the idea forward and get it to the point that a rational evaluation can be honestly made. Your objective should be to have as many ideas as possible arriving at the IV to III gate as you can. And management's stance should be how to keep it going cheaply, not how/when to shut it down. As one manager put it, "If you think your EI is wrong, encourage them to go faster." You *want* the problem of having so many good, partially vetted ideas that it's difficult to choose from them.

Resources spent in states I through III can legitimately be considered investments since a rational return can be expected and calculated. Resources spent in states IV and V are expenses. You are essentially buying the option to play a game that will only be available to you if you buy the ticket today. The issue should be how to buy a raft of these options at (ideally) zero cost to the organization.

The smart alternative: Employ entrepreneurial thought and action at the enterprise level

The alternative to NPV calculations and their consequences is for the firm to think like an entrepreneur (and like the VCs) and employ ALB. Rather than asking, projecting, and calculating how big it will be, instead start with is it big enough to interest us? Simply put, the opportunity must be so big as to make prediction unnecessary. The logic of expected return leads to lots of studies, projections, analyses, and the like. If people think it can be predicted, they will try to. What you want are venture ideas that are enormous compared to the contemplated investment—of such potential value that it compels support, at what a reasonable person would estimate in advance as a reasonable cost.

But at every step remember that the governing issue is possible value *versus* cost. The recipe is simple: keep all the relevant costs so low as to make calculation unnecessary. You can't calculate the ROI of a venture into the Unknown, but you don't need to. With minimal to no calculations, you can assess whether it's big enough to interest you. And if your costs are minimum, you're done.

Acceptable Loss permits you to get started at the right end of the spectrum with no labored analysis. At this point, the result you want to measure is not necessarily progress on the vision. In early stages, its progress is validated learning that reduces uncertainty. As you move from right to left, you can begin to apply classic tools. They need data and if you don't have data, make your own.

Some practical suggestions on how to do this will be offered in a later section.

Your Personal Support System

Now let's turn our attention to the people around you. There are five relevant groups and you need different kinds of things from each group: your peers, mentors, sponsors, managers and executives.

1. Peers

The first group is your peers. We have already addressed them and particularly the advantage of finding a partner earlier in "Bringing others along."

2. Mentors

So much has been written elsewhere about the importance of mentoring that we will only reiterate here its value to the Entrepreneur Inside. Finding a seasoned advisor will help you avoid mistakes and take smart, efficient action. An added benefit will be enhanced confidence and peace of mind in the face of what you experience as a risky situation. Remember, older mentors aren't necessarily superiors in your organization's hierarchy. Some of the best are longer-term employees who have been effective change agents during their career, whether entrepreneurial or not.

3. Sponsors

Like Columbus, you will want to find a prince or a princess, as we described earlier. You're going into the Unknown. At inception, the outcome is uncertain, and there is no way for anyone to say whether the time and resources you spend are an investment or a waste. Ideally, you'll have someone who commands sufficient resources to cut you the slack you need and get you the things you want.

Even if you don't have a prince, you will want at least one sponsor. This is a critical role and they will help your venture primarily by coaching and advising you.

Sponsors lend their reputational capital, make connections for you, and lobby for your efforts when required. They lubricate and shield you from organizational forces, often helping you to keep your project undercover and off the radar of other senior managers, departments not involved in the project, or other potential critics. You need them to help build, manage, and protect your reputational capital and gain legitimacy, while you are achieving the early, small successes so vital for future support.

You may not need sponsors if you are yet operating 100% underground, but once the project is visible, history shows that sponsors are a requirement for success.

Sponsoring types are pretty obvious in many organizations. They're relatively senior and have a reputation for having been sponsors before. Whether consciously or not, unlike most others in your organization, they have a natural comfort with ALB. So, find one or more and to get them excited about your idea. Remember, it is even more important, that you excite them about you. Like good venture capitalists, they bet on the person more than on the idea.

4. Your Manager

Your boss isn't your boss. In the Known, if the company's employee development system is performing correctly, the more senior people, because of their tenure, will obviously have more experience. If they have been promoted on merit, they should also have better judgment. We're not saying it *always* works this way, but in an ideal world, this should be the case. So under these circumstances, bossing is quite valid. Your boss can and often should supervise, and sometimes veto, you because he knows more, and his judgment *should be* superior.

His knowledge and judgment, however, *in the Unknown*, is not necessarily relevant. At best, in a specific case, he might be able to say that something won't work because he knows it's been tried and failed. But even then, he can only speak to that particular instance. So your task may well be to help him understand that in the Unknown, no one can ever say that a specific step won't work or the venture as a whole will fail, because no one can know what sort of discovery, asset, or opportunity might emerge after a very next step. Therefore, in the Unknown it's generally logically wrong for him to boss you.

What does that leave you with? The simple answer is that your boss should be your coach and thinking partner. You are Meriwether Lewis and your boss is Thomas Jefferson. Lewis and Jefferson reportedly spent days conceiving and planning Lewis and Clark's expedition to the Pacific Ocean. Jefferson apparently just loved this. But the two of them didn't sit there and plan what specific steps Lewis and John Clark were going to take. Instead they thought about what the expedition was likely to encounter, what they needed to bring along, and who should be part of the expedition. There was no way that Jefferson could supervise and boss that expedition. It would have been utter foolishness.

This leaves you with an entirely different image of leadership and management than when operating in the Known, and a different list of things that an immediate supervisor would be doing. In the Unknown, the explorer is the leader, not the supervisor. The boss instead is a coach and thought partner.

Slack and Sufficient Autonomy. High on the list of most corporate entrepreneurs is autonomy, but they certainly don't expect or want unlimited freedom. Sufficient Autonomy means the freedom to move, to take reasonable action without undue interference, to do things differently even when the larger organization of which you are a part doesn't. Sufficient means *enough* freedom and not necessarily any more. Often more than what is required is a liability.

Unless you're completely covert, which is dangerous and questionably ethical, you will need to negotiate for Sufficient Autonomy with your boss. Operationally, this means enough slack to take your next steps. Some managers will give you a long leash; others, quite a short one. This will be her decision based on her style, degree of comfort with you, and her Acceptable Loss. Don't hold on to the hope that she will, or even should, be good at helping you. Going into the Unknown is not in her job description, and she won't necessarily be rewarded for it. After all, she has probably gotten to where she is by being good at managing the Known. Consequently, it's your job to manage, educate, and coach her, perhaps even more so, for most of the venture than the other way around. That includes doing your homework of thinking through her calculation of Acceptable Loss, helping her make that calculation explicit, and reducing her (primarily reputational) exposure.

Ideally, bosses will double as sponsors and, in most cases, you should try to enroll them in this. They are often more readily available and can act more quickly and quietly than a more senior person can. They are the ones with immediate influence on Sufficient Autonomy.

Your coaching agenda for your boss

First, your boss is a thinking partner. Specifically, he can help you design a next action such that it ideally yields progress. And even when it doesn't, it still yields what Eric Ries terms Validated Learning and/or new resources. Your boss should help you to take stock, reflect, and learn, both in terms of constructing next steps and discovering and reifying your desire and commitment to the venture. And he can help you discover and discern when to employ ALB and when to analyze and predict.

Second, your boss needs to help you manage your Acceptable Loss and how you minimize the downside potential of the loss of your relationship capital. And remember, this is a two-way street. You must help your boss manage his Acceptable Loss, as well. His reputation is on the line, to some extent, just as the firm's resources (tangible and reputational) are under his budgetary control. Remember, at the very least, your boss is continually weighing the opportunity cost of you. What is the greater benefit to the firm, your doing your venture (even part time) or spending that time on your assigned job? At any point, it is valid for him to judge when Acceptable Loss has been reached or exceeded.

Third, you must understand that entrepreneurship within the large organization, either being one or supervising one, is not included or even accommodated in the prevailing theories of management your bosses have been trained in. They are operating in the Unknown regarding their job and what is appropriate, in the same way you are with your venture. You really need to cut them some slack! We all have habits that are less than productive, and we will revert to them unconsciously, particularly when under stress.

Expect that your boss will innocently and unknowingly revert to bossing even when it is illogical to do so. Be prepared to engage with that behavior and get the relationship back on the proper track. Should it occur that he repeatedly bosses you in a way that is detrimental to the venture, it's an indication that he has assumed the role of the explorer, and you are now part of the crew. This is most likely unfortunate for you, since he may now want the project to go in directions you may not care about. It can also be dangerous, since you still shoulder the public perception that it's your project, regardless that it is no longer under your immediate direction.

Organizations have habits too. For example, in some it is common for bosses to steal the credit for subordinates' ideas. Hopefully, yours is not one of these organizations. If it is, it's a further indicator that your efforts will not be rewarded.

As an aside, this points to a reverse corollary of a sort. Consider the potential losses to you if you are assigned to a project you don't care about. What should you do in this case? Too many times we accept such assigned roles, without first thinking critically. By the principles discussed herein, we recommend instead: talk your way out of it! No one has ever gotten fired for failing at an impossible project but to be conscripted into a project you really don't like will have you thinking and planning (you are, after all, fulfilling your job)—but likely not *acting*, with procrastination coming into play. This cannot be a good career move. In such cases, it's good to remember that you are not the venturer; the person who assigned you is.

So whenever you encounter the tendency to blame your problems on a manager who "simply doesn't get it" give it up! In the Unknown, it's not your managers' jobs to either "get it" or "get you"; it's your job to get them.

5. Executives

This group should be easy for you to address. There are a number of things executives can do that will be of help. We'll go over some of them here and leave the rest for a later section.

Most important, executives will (ideally) establish and communicate why personal initiative and experimentation are strategically important to the firm. They will legitimize the kinds of things you're doing. They will set up mechanisms aimed at selectively resourcing ventures like yours and may relax local policies and other constraints that impede. They can coach and sponsor—but remember, they know they must be careful of doing too much in support of a particular effort.

After all, executives have the Acceptable Loss of the firm as a whole to be mindful of. Much of the data they use will be unseen by you, and their calculations, both personal and organizational, will be different from yours or what you may think makes sense. You should also remember that senior involvement is a two-edged sword. Overinvolvement of a senior executive can be quite counterproductive and even dangerous. It has led to expensive mistakes, which might have been avoided had executives not overdriven pet projects.

The reason this group is easy for you is that your executives are already doing the things that are obviously beneficial for your particular venture. Yet if they are not, there is little you can do about it; so stop lamenting and forget about it. Act your way into the future. Take the steps you can with the resources that are available. Your success can be an illustration and a learning experience for your firm but focus on this *only* to the extent that it serves your own ultimate purposes. It's not your job to change your organization, but your organization can change as a result of you doing your job well.

When to Use ALB

It is vital for innovators inside large organizations to know when and when not to use ALB. You might think we're admonishing you to discard prediction in favor of ALB, but this would be nonsense. There are two complementary logics, each suited for a particular situation. Every project, of course, consists of serial and parallel steps. And at each of these points, you have the opportunity either to study, analyze, and predict or to implement ALB. In general, you will devise some sort of hybrid based on the situation. At the extreme left of our spectrum, every step is in the Known or predictable territory, and Predict, Plan, and Execute (PPE) is the proper logic—in almost every case.

For a given step in the extreme Unknown, certain results either *cannot* happen or *must* happen by the various laws of science. Other results *probably* will happen, and you may legitimately use probability and statistical tools. Then, there are those outcomes that cannot be known without running the experiment. Thus, no matter where you are along the spectrum for any given step, you are using PPE *including* those cases when ALB rightfully should dominate.

To be sure, when things are very predictable, PPE is favored. After all, presumably, it is possible to determine the right action in advance, which will generally render study and logic less costly than acting. However, even in extreme predictability (at the far left of the spectrum), there can be cases where acting is better and can make more sense than additional thinking and planning; for example, when smart action can produce equivalent progress or learning cheaper and faster. Remember, there are costs associated with PPE that are often overlooked, such as the time it takes to both initiate and analyze a given study and the delays in implementing that result.

As you progress from left to right, it becomes less logical to favor PPE and more logical to use ALB. In the extreme right, the overuse of PPE is nonsense. Thus, with the exception of the extreme left, you will be continually faced with the question of which logic to use for each part of your project. It is essential you realize that this is a question without a perfect answer: Which is *right*? It presumes that a singular, defined right answer will yield a better outcome, which is the essence of predictive reasoning. But we are talking about situations that are, by definition, not predictable. Therefore, which to use? is generally the wrong question. ALB should always be considered as an alternative—or at least a complement to—prediction.

The recipe, instead, is to reflect on the situation at hand and make an intelligent choice while not overrelying on one or the other. You might call such an approach ambidextrous; we rather like "bilingual" for its connotations: you ought to speak PPE and ALB so fluently that, almost unconsciously, you choose the best option for the desired result.

As your project progresses, things that were Unknown become clear and more predictable. You can and should begin to use PPE for them. Beware, though, the tendency in a large organization is to revert back to the use of PPE too soon.

None of this will necessarily (or even likely) be obvious to others in the organization, and so in addition to being adept at employing ALB yourself, you must become skilled at explaining its characteristics, benefits, and the conditions when it should be employed to others. Hopefully these notes will equip you with the knowledge and arguments you need for these conversations.

Internal Innovator Cost-Benefit Analysis

Why would you want to be an EI? First, there is the intrinsic satisfaction of creating something. It was your idea, and you made it real. This is no small thing. In fact, for many entrepreneurs, doing something they care about, and that's never been done before, is more important than the money.

This brings us to the tangible rewards. Depending on the nature of your venture, if successful and on your organization's conventions, you *may* get a bonus of some fraction of your annual salary. This is something that you can often estimate concretely. You may also get some public recognition within your organization and, in some cases, even externally. All of this might advance your career, but only so far.

What about the costs and risks? Almost all of these have to do with your career. Let's have a frank discussion that puts our discussion into a cost-benefit context.

Crazy Deviant? Obviously, you will look unusual to your colleagues, unless you somehow manage to advance your venture entirely in stealth (not likely). Appearing unusual to others, in and of itself, is not necessarily a problem and might even please you. However, being too much of a deviant, and especially one that disrespects existing culture and norms, will really work to your disadvantage. In the short term, it will be harder to get things done, and in the long term, your reputation and access will be compromised. Become adept at explaining the logic behind why you are acting "differently." It will go a long way towards making your deviance charming to your colleagues.

Failure. What happens if you don't succeed? Especially for a first venture, forget the fear that you'll be fired; it's very unlikely. The probable cost of a first failure is the loss of a little "street cred." (As an aside, if your boss decides to praise you and your failure as a way of urging innovation within the firm, the benefits of this publicity will accrue to the organization and won't be worth much to you at all.)

So there's no real problem, in most organizations, for the first failure. But the second, particularly if it's sequential, is another matter. You will sustain a serious loss of reputational capital. In the extreme, there are organizations where a follow-on failure can be career ending.

The truth is that, in the case of success, it can affect your long-term career prospects. Do it more than once and, yes, your reputational capital will grow, but you will increasingly be labeled “unusual,” at least to some degree. And if you engage in too much of this “innovating from within” stuff, you may, by default, step off the career ladder that you and your peers are on. They will continue to build reputation, relationships, track records, and skills that the organization has identified as valuable. But you won’t, as much. And once you veer off the career ladder for any appreciable time, it can be impossible to get back on. For many company entrepreneurs, your safest bet is probably to keep your regular job and work on your entrepreneurship in your spare time.

Asymmetric Risk. Further, let’s look at the complete picture of inside ventures from a rational economic basis. It’s not pretty. We have here a classic case of asymmetric risk. The downsides are pretty predictable, tangible, and can be severe. The upsides are less tangible, less predictable, and on a monetary basis, don’t outweigh the damage to career potential. If this were a stock, it would be characterized by limited upside and possibly big and unknown losses. You wouldn’t buy.

You should do your own calculation, and obviously, in that calculation, your desire weighs very strongly. But net, on a purely rational economic basis, internal entrepreneurship may not be a great job for people with high corporate aspirations. There are exceptions. Consider some hypothetical examples. If you are five years or so from the end of your career, you really can’t do much damage to your reputational capital at this point. Or you may be young in your career and have no need to remain with your present employer. In this case, you can use your entrepreneurial activities as a learning experience that you can take, along with your story, to another firm.

But for someone in the range of 28 to 55 years old who is looking for a stable career with his or her current employer, it’s a questionable pursuit—except where there is something you really want to do, your employer provides relatively easy access to resources otherwise hard to get, and there are at least some easy channels of enrollment available to you.

So for those who are curious as to how to start in a lower-risk circumstance, here’s a better option. Do one internal venture quietly and see whether you like ALB. If you discover you don’t, you’ll have created a fork in the road and taken the path *more* traveled by—but then you’ll know empirically what works for you. Pursue this venture with no regrets and become a sponsor of other corporate entrepreneurs.

But if you find you do like ALB, proceed using the principles and caveats we’ve described in this manual, particularly if you need security or the assets of a big firm to pursue your dream. Alternatively, you might apply that interest towards your own benefit. If you’re working 60 hours a week, cut back to the 40 or so you are being paid for. Continue to be a faithful and capable employee (and even look for ways to add value with less time input); then use your “found” hours to start a business of your own on the side—a business that can provide you with substantial income in 10 to 20 hours of weekly effort. In 3 to 5 years, you could own your own firm.

Courage

From time to time you will reach or exceed your psychological Acceptable Loss, and despite your best efforts and cleverness, you may not see a way of reducing the cost of your next step to the point that fear abates. You will have reached a place where courage is required to take the next step.

The fear will most likely be engendered by a political issue or a conflict between you and the prevailing culture; that is, it will be in the human dimension since organizational structures and systems alone rarely, if ever, induce fear.

How to handle this moment of truth? Fear has been studied a lot. Cliff Bolster, PhD, studied courage, and he found a number of things that will be relevant to you. First, what is courage? Dr. Bolster found that a courageous act meets four criteria: First, you are pursuing something that matters a lot to you, often something beyond your own immediate self-interest. Second, you believe that by taking the required action negative consequences will follow. Third, you have the choice whether to do it or not. And finally, you experience tension, anxiety, and/or fear.

Using various psychological instruments, Bolster studied the relationship between courageous acts and such variables as self-efficacy, self-esteem, personal power and confidence, before and after taking a courageous step. No surprise that participants reported positive consequences in these empowerment dimensions. The emotional state was negative in 79% of the cases prior to taking the act, and positive in 70% of the cases following the courageous act. Simply put, being courageous results in positive *psychological* consequences. It leaves you feeling more whole (taken from the Greek word *integros,* or integrity), even if the outcome is not in your favor. Bolster also found that in 83% of the cases, the anticipated negative consequences were *not* realized. However, in 17% they were! Situations that require courage have far from certain outcomes. There is real risk.

Perhaps the most important conclusion derived from Bolster's research, however, is that the psychological consequences of avoiding the courageous act (being cautious or cowardly) were *not* neutral. Bolster's thesis is that if we develop a pattern of choosing the cautious route, we weaken ourselves. We "dis-integrate," or lose integrity. It's easy to think that there is no damage done if you don't act, but to you as an individual there always is.

Remember that fact when you reach your next edge. Taking the next step beyond your fear may not always lead to the best business result, but probably will turn out best for you as a human being.

Finally, Bolster found that courage can be developed by talking with others about courageous acts you and they have taken. All the more reason to form that tribe.

Part III: For Managers and Executives

Let's repeat something we said earlier: Entrepreneurship is not included or even accommodated in the prevailing theories of management. Corporate Entrepreneurship is a formative and emerging field. Promising theories are called into question by subsequent research. Some are in contradiction with others. Net, there is not a lot of coherence in a set of principles governing entrepreneurship inside, and even less a set of prescriptions of how a large organization can become entrepreneurial.

One thing is clear, however. It won't happen very quickly without appropriate leadership and management. Leadership and management is really different when you are venturing into the Unknown, whether you are an EI or his or her manager, or even a senior executive. Whether you are the most junior or the most senior person in your organization, if you're soloing into the Unknown based on your own desire, you're going to be using the logic of entrepreneurial thought and action or Act, Learn, Build.

If you're actually not doing it yourself; if instead you are a manager or an executive trying to help one of these folks or *all* of the entrepreneurial effort in your organization, then you're going to be doing a few quite different things than what you normally do as a manager.

Let's get at this by examining two elements of good management:

- Knowledge – how much stuff you know
- Judgment – how good your decisions are

And then use them to illustrate the difference in what's required of management and support in the Unknown, compared to in the Known.

The longer you live presumably the greater accumulation of facts and experience. If the company's people development system is performing correctly, the more senior people will have more knowledge and better judgment. And hopefully, those with poorer judgment will have been weeded out. So in the Known, bossing is quite valid. You can, and often should, supervise and sometimes veto subordinates because you know more and your judgment should be superior.

You're not "the boss"

But what happens if somebody comes to you with a desire to go into the Unknown. Your knowledge and judgment, like anyone else's *in the Unknown,* is irrelevant. No one can ever say what to do. At best, in specific cases, you might be able to say something won't work because you know it's been tried and failed—but only in that specific case. You can never say that the venture can't work, because in the Unknown you can't know what sort of asset or opportunity will emerge after the very next step.

And therefore, in the Unknown, it's logically wrong for you to boss. This observation puts the role of the manager of the Entrepreneur Inside in a different light and should lead to quite different behaviors.

Coach and thought partner. What does that leave you with? Being a coach and a thought partner. The image is Thomas Jefferson (you) and Meriwether Lewis (your explorer). They reportedly spent days conceiving and planning the expedition. Jefferson apparently just loved this. But they didn't sit there and plan what steps Lewis and John Clark were going to take. Instead they thought about what they were likely to encounter, what they needed to bring along, and who should be part of the expedition. There was no way that Jefferson could supervise and boss that expedition. It would have been utter foolishness.

This leaves you with an entirely different image of leadership and management when operating in the Unknown and a different list of things that an immediate supervisor would do. In the Unknown, your explorer is the leader, not you. You are a coach and thought partner.

This and some other very traditional roles and behaviors of managers and executives need to be abandoned or curtailed for ALB to thrive. This relearning can be addressed logically, but as yet, there is no formula. Perhaps, more difficult is that habits and roles are pretty firmly entrenched, and significant awareness is required for the individual and about the situation.

Manage Acceptable Loss

While there are relatively few decisions you should make about what *to* do, there are important decisions to be made about what *not* to do. The principle for making those decisions is Acceptable Loss, which includes two important dimensions: tangible and reputational.

The **tangible** dimension is generally very straightforward and even calculable: How to keep the cost low for the overall project and for each step? You do have the legitimate role of setting boundaries, and the best way to do this is by establishing a set of commonly understood principles that inform what is generally acceptable to the firm. Otherwise, you are left with a cumbersome case-by-case process that can look opaque and arbitrary.

On the **reputational** side the question is: How to protect the reputations of your firm, your pioneers, *and yourself*. These are not hard questions to answer as long as they are asked. The reputation of the firm is, again, a generally straightforward matter of risk analysis, although in the Unknown many parts may be unpredictable and some unimaginable. The more uncertainty, the more judgment is required, and your judgment is legitimate.

You need to manage the reputations of yourself and your pioneers in terms of immediate social influence (credibility) and, in the longer term, career. Most people will turn out to be great stewards of your tangible resources. These are generally quite visible and, in most cases, quantifiable. Not so for reputations; they are not as visible and strictly manageable.

First and foremost, *make sure your Entrepreneurs Inside are successful.* In a large organization, theirs and your ability to do things in the future will be severely compromised after a first big public mistake. And a second one will effectively be terminal for them. It may not end their employment, but it will surely stunt their career advancement.

Reputation is all-important. You need to be coaching them about how to do this in such a way that builds their reputational capital or, at least, doesn't put any of it over the line. The indefiniteness of reputation alone leads people to be rightfully careful. And as mentioned before, it turns out that reputation and its impact on career is perhaps the bigger risk for the Entrepreneur Inside. We will return to this issue in the advice for executives. But you must help solve the EI career problem too.

The opportunity cost gets you! The money and time resources and reputational issues are relatively direct. The former are often quantifiable subject to predictive analysis. The latter, while subjective, can still be estimated. The opportunity cost nearly always presents a challenge that requires some thought. You always face some tension between deploying often-scarce resources to more predictably valuable alternatives, such as a dead-certain project with an acceptable IRR to boost a current product or solve immediate problems. For example: "It's a crisis. We need to fix Production Line 3." The ability to quantify these "known" opportunities heavily biases the decision away from the venture. And so far, we haven't discovered an effective counterweight to this bias beyond the courage of the manager.

The only times you can say no. Ultimately, you are the arbitrator of Acceptable Loss for the company and for yourself. If it's too expensive or too risky, you get to say no. Otherwise, you're a coach who is consistently helping them to take their next smart step, because *you don't and can't know* what will happen next. During this time, the only thing you can really know is whether it exceeds your Acceptable Loss.

That's one of the two times you get to say no. The other is when the venture isn't aligned with the strategy or mission of your organization. This person needs to be encouraged to pursue their idea on their own time.

Navigate the Organizational System

It's no surprise that you will have to help them navigate the viscous, sometimes toxic, structures we talked about in an earlier section. The need for capital and other resources is well recognized in the case of the New Venture Entrepreneur. By contrast, more often the major need for the Entrepreneur Inside is support from executives and other employees. They need resources and you can help to get them by using your reputation and relationships to bring them together with other people in the organization that they can bootleg and borrow from. From time to time, you will need to "fly air cover" for their activities—keeping them from scrutiny, when necessary, protecting them from external meddling and questioning, and even defending them when they make mistakes or otherwise collide with the system. And, of course, they will often need some sort of temporary exemption from existing policies.

We have already covered some of the obvious ways you can do this, but one specific thing we haven't talked about is that you've got to help them get the team members they want. In the case of a startup, everyone knows the quality of the team is critical, so much so that it is often ranked higher in importance than the quality of the initial idea. The New Venture Entrepreneur (NVE) generally gets to pick their own team members. And the EI often has little control over the assembly of their team or the team-building process. This is a real liability that you can help correct.

It's not just forming the team. Often EIs, early in their career, lack experience in how to lead and otherwise exhibit soft political skills of persuasion and reciprocity. Here, too, your immediate support and coaching can be quite valuable.

Acknowledge When You Don't or Can't Know

In the face of uncertainty, years of experience may help, but not as much as you might think. Very bright people overestimate their competence.

Acknowledging that you don't know can be pretty threatening for many people, especially for those who have advanced because they nearly always had the right answer earlier in life. This is not just true of managers. It's quite common for most employees to assume or at least hope that their bosses know the right move. There is a hierarchical deference that connotes wisdom in senior leaders in the organization. It is a bit of a Faustian bargain, however. We give up our freedom and personal responsibility in exchange for the perceived knowledge of our leaders. So we need to be clear that there can be both a perceived and an actual loss of reputational capital if you go public with the fact that you don't know. This is a gnarly problem, but it must be addressed.

So if, in the Unknown, managers aren't smart enough to have the right answers, or even better answers than subordinates, what are you left with? First, engage overtly in a level of curiosity of your own. Don't offer answers when you don't really have them. Instead, search for them with your subordinates. Next, you'll find it much better to turn over the question to some form of empirical test than to leave the organization acting solely on your own experience. License a process of rapid-cycle experimentation that involves little or no risk or money and generates insights that are actionable in a way that doesn't delay materially the ability to act. The answers to your problems are neither in your head nor in your office. It requires you to learn, so form the habit of learning from market data.

For example, Intuit ran just under 500 experiments rooted in the assumption that hierarchically driven managers had a reasonable hypothesis about how the tests would turn out. These experienced managers were wrong 88% of the time. Intuit concluded that hierarchical position in and of itself generally doesn't convey the wisdom of the user experience in an uncertain environment.

Targeted experimentation and Validated Learning

Targeted experimentation means rigorous thinking that leads to Validated Learning, which, at the very least, reduces uncertainty. It's not just a sloppy, "We did something. It didn't work. We learned something." In *The Lean Startup,* Eric Reis covers this topic well. While it can get very sophisticated, the most import thing is to put discipline into experiments and evaluation, starting now. As Intuit's Scott Cook puts it, "evidence trumps intuition." Any amount is better than none.

This is analogous to the design of a good experiment in the hard sciences. You don't *and can't* know what will result from the next step. You don't know any more than the person who's going there. But you *can and should* design that step so that something valuable to them and the company is learned, whether it produces the desired result or not. Even though your managerial wisdom may not be that useful in predicting the answers, it should be used in helping to formulate the experiments.

The designer of the learning agenda for the next experiment is really different from being boss. Look at *any* MBA curriculum in quantitative methods. You will not find one in a leading business school today that actually teaches the design of experiments, at least as of this writing.

Rapid-cycle, inexpensive experiments are a substitute, and even the primary vehicle, by which the learning can take place. In the Unknown, why would you rely on life experiences as the source of wisdom, when in a low-cost rapid way, like entrepreneurs we can actually put the question out and begin to develop more of the data necessary to create a more predictable environment in which the organization can act?

Mind the Mixed Messages

We're all a little bit crazy and most managers have certainly felt that way about their Entrepreneurs Inside at some point. But there is a good chance that the organization is actually the source of a lot of that craziness. Is it presenting them with a double bind—that is, enjoining them to behave simultaneously in mutually contradictory ways? Organizations today routinely tell people to "be empowered and innovative and take risks," while demanding at the same time, "make, plan, and deliver on all your commitments." If you think this drives people crazy, you're right. And yet, it's unlikely that this situation is going to change because uncertainty, complexity, and ambiguity are here to stay, as are the requirements to both get the laundry out and be innovative. So what can you do about it?

First, don't pretend this conflict doesn't exist. Over fifty years ago, Gregory Bateson proposed a theory of schizophrenia based on the idea of a double bind. An authority figure (e.g., a parent, or in this case, you) traps the victim (e.g., a child, or in this case, your Entrepreneur Inside) with two conflicting demands—something like "Do X or I will punish you," and "Only do X if you want to."

Chris Argyris later summarized the organizational version like this: Craft messages that contain ambiguities or inconsistencies. Then instill craziness by acting as if the messages were not inconsistent. Finally, seal the whole thing up by making the ambiguity or inconsistency in the message undiscussable, and top it off by making undiscussability itself undiscussable. Argyris pointed out the problem is not that people cannot deal with conflicting messages; they do it all the time. Mom says one thing, and Dad contradicts. But it's bad news when the powers that be pretend their messages are not in conflict and effectively preempt any discussion of the matter.

So when you see weird behavior, there is a good chance that this double bind is at the root. Luckily, the remedy is simple. Discuss the undiscussable. Bring it right out into the open *without any expectation that the original mixed message will change*, because it probably won't, at least in the near future. The good news is that it doesn't have to. If people talk and laugh about it, even if only with friendly colleagues, and especially their boss, it will go far in creating psychological freedom. Even if you don't talk about it a lot, just the awareness of these mental structures will leave them less frustrated.

You might even let people know that, from time to time, you feel the same way, and you can laugh about it too. It means a lot to your subordinates to know you understand the situation the same way they do. Once you're talking about it, you may even find other creative ways of helping them navigate the bind. Even if you fail, the discussions will naturally lead to increased confidence and sure-footedness.

It can mean even more if you can share some of the pressures and expectations you face as a manager in supporting them. The more they understand your situation, the less confusing things will be. And you will certainly deepen your rapport with them.

Net, deal with the mixed messages at the local level whenever you can. But while you can render the double bind impotent, changing the originating mixed message is another thing altogether. That said, surfacing and discussing structures like these is probably the single most important first step to effecting systemic change.

Storytelling—Legitimize and Cheerlead (But not too much)

For ALB to have a chance, it must be legitimate. The two most important things to legitimize it are having it produce results and public management support. We've addressed the first. Regarding the second, find ways of telling stories of your own organization's successes.

Bring your innovators together for an innovation lunch to share and get excited about each other. Invite some of your management peers and even an executive. If you are an executive, expand this to an "innovation fair" that might involve 50 people or more. You might even consider forming a club or tribe for your EIs. They also need to be able to share tricks of the trade with other EIs. Like early sailors, they need to "trade tide tables and maps of where the reefs are" and how to avoid them.

Take advantage of existing company meetings and build in storytelling of successes, or find current and past examples that have been successful in your organization and showcase them.

Stress the strategic importance of innovation and ALB. The ways to do this are only limited by your imagination.

The simple idea here is to encourage storytelling. Not only will it validate the efficacy of ALB, it will help engender support from people who might otherwise not understand or normally offer it. Moreover, it will make the "undiscussables" discussable, and over time, it will lead to greater levels of enrollment. All of this will be true about success stories; stories of failures and difficulties can be even more potent, if carefully employed.

Be cautious with making too big a deal of your entrepreneurial activities, particularly early on. There can be back pressure and unintended consequences if Corporate Entrepreneurship becomes fad *du jour* or creates "special" citizens within your company. Moreover, ventures generally don't need very much publicity. You don't want to call too much attention to them when they are underway.

Desire

We've addressed this before. Perhaps above anything else you must ensure that your pioneer really wants the result they seek. Why support or encourage somebody to go into the Unknown if they don't care about it? They won't persist or be as creative. And creativity is vital. They'll sit around and overthink. Why would you invest an ounce of the company's precious resource of this employee if their heart is not in it? Yet when their heart is in it, you want be there to *deliberately* stoke their desire and vision, so that it builds over time. And if they lose faith, you need to help them find it.

Going into the Unknown is not something you "assign" to a subordinate. The majority of what you do fits into your existing organizational construct. Sell. Reduce costs. Extend your existing business, etc. And you have all sorts of plans and projects to meet these demands. When you assign one of these projects, you have implicitly and (almost always explicitly) established the expected value of the outcome. Someone has analyzed, defined, and probably, to some degree, quantified the intended result. This is the situation where you employ Predict, Plan and Execute, and when you can, you don't need to lean heavily on Act, Learn, Build. However, when you're going into the Unknown, you simply can't estimate what the prize is. And if you can't estimate the size of the prize, what good are your NPVs?

So if you are helping your firm venture into the Unknown, don't assign it to somebody.

Develop Wisdom on When to Use Act, Learn, Build

To be really effective as a manager of an EI, you and they need the wisdom to know when to use ALB, when to use PPE, when to use a hybrid, and ultimately, the bilingualism discussed earlier. This is an expertise that you can personally develop. Employing the proper mix is best, and you can really help your EI by helping them think this through. People tend to habitually lean in one direction or the other, to the detriment of their project. Here are some principles for you to consider:

Clearly, when you are deliberately venturing into the Unknown, ALB will be the predominate logic. But even then, you should be predicting and planning to some degree. The reverse is also true. While you are planning, it's probably a good idea to be simultaneously taking small, smart actions.

Here are three more situations you will want to lean heavily on ALB:

- When smart action will get you to your desired end result faster or more cheaply
- When the cost of study exceeds the benefits of the result
- When you are not sure that there is a there, there, running a simple experiment can inform whether there is an opportunity.

It seems like you'd end up using ALB in a lot of situations. You might, but you don't have to worry about it. In your role as a manager, you don't have to sort much of this out in advance. You only need to respond to requests of individuals, and then only those that are born out of desire.

Trust, Trustworthiness, and Psychological Safety

If you want more entrepreneurial action in your organization, your Entrepreneur Inside must feel psychologically safe. As a direct supervisor, you are in the single most influential position to effect that sense of safety. As we discovered earlier, the single biggest worry of the EI is the need to manage the acceptable loss of their social capital (their image in front of you and others). Four specific image risks are being regarded as ignorant, incompetent, negative, or disruptive.*

As the boss, your relationship with the entrepreneur can go a long way to offset these risks. Through your responses to events, you can send clear signals of support that will create psychological safety for your Entrepreneur Inside. Alternatively, if uncertainty clouds their relationship with you, or when there is interpersonal fear, and especially when their views appear to be at odds with those of others, the natural path of least resistance is to keep quiet and don't act.

To state the obvious, the improvisational nature of venturing into the Unknown requires that your EI accept the possibility of mistakes, failure, looking wrong or foolish. The expectation of adverse consequence, particularly personal ones on your part, will completely arrest their entrepreneurial action. It must be evident that they will not be punished or humiliated for errors by you, and that you will do your best to support them when facing the social pressures of others.

Simply put, the most important signal you can send is not really a signal. It is to *be trustworthy.* Your Entrepreneur Inside needs to trust *you,* personally, because she can't really fully trust the

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* For more on this topic, see Amy Edmondson's book *Teaming,* which does an excellent job of summarizing decades of research in psychological safety and its affect on individual and organizational performance.

organization. To this end, you should know that people care more about warmth and trustworthiness than immediate competence, particularly in the face of uncertainty. Your intent matters more than your ability.

You don't need to believe in or care about the venture at the outset. After all, it's not really knowable at this point. But *you do need to care about and come to believe in the entrepreneur*. In this sense you are like a venture capitalist who bets on the person in the early phases more than the idea. Help them take the next step and be successful. Then another successful step. Then another. Their confidence will build, and so will yours in them. And so will that of the people around them, including more senior management. At some point, the venture will be judged objectively, but until then, you are running on your faith and confidence in the entrepreneur.

Part IV: Employing Entrepreneurial Thought and Action at the Enterprise Level

Earlier we argued that firms need to think like entrepreneurs (and VCs) and employ ALB. Instead of predicting and projecting, start with is it big enough to interest us? Then help the venture get started with the Means at Hand and employ Acceptable Loss every step along the way.

Remember the five currencies in Acceptable Loss for the new enterprise entrepreneur: time, money, reputation, opportunity cost, and psycho-social needs. You can solve the time issue by having the early steps to be done on the employee's own time. You will need to control and limit money and other resources to what is acceptable to the surrounding players who need to help or are otherwise involved. The reputational and psycho-social needs and exposure of the players and the firm needs to be considered and managed. As for opportunity cost, you cannot avoid the tension between having your EI work harder or more hours on their existing assignment to the firm's benefit versus working on their idea. We'll have more to say about this later. Just as the answers to these questions can be known individually to the EI, they can to the firm too. Moreover, you can and should assess all of these with minimum to no calculation.

Practically – How do you do it?

Encourage everyone

Most firms have a lot more entrepreneurial people than they know of, and so there might be good reason to worry about unleashing chaos. But, this latent entrepreneurial behavior remains inactive because most folks have done their personal opportunity cost calculation properly. If they have extra time and effort on their hands, they don't put their day job at risk and instead apply it to what they are already being paid for, thus racking up better personal job performance, reputational points and career advancement.

Moreover, most ventures die within a few months, either because they don't prove out or because the EI loses interest. For example, since 2000, MIT has provided a free educational service to help aspiring MIT-affiliated entrepreneurs develop their business ideas. Students, staff, alumni, and faculty can approach VMS with an idea and receive customized advice from a team of experienced volunteer mentors. This service provides unprecedented data on very early-stage ideas. A recent study of a 652 venture sample showed that 22% achieved commercialization, defined as having recurring revenue and expenses, which, of course, is not the same as ultimate business success. Nearly 40% of the ventures never progressed to having a meeting or met with their mentors only once.

Support projects based on substantive commitment of more than one player

While there may be a supervising manager or a small committee, a number of companies are essentially green-lighting the "plunge" decision based on the EI and the presence of committed colleagues and *not* the judgment of managers (except for Acceptable Loss). These companies recognize that the talents, and thus promotion path of the typical manager, have been obtained by success in predicting, planning, and executing. Essentially, the bet is that the more people volunteering to play, either because they believe in the idea or a colleague who is an EI, the more likely it will be successful. This is logically sound on a number of fronts.

First, there is evidence that the managers' before-the-fact judgment in ventures into the Unknown is not all that good. In one case, their conclusions were compared to what the market eventually validated (or not), and the managers were right only 15% of the time. Because of this, state IV actually is, or should be, a pretty small set. Claiming similarities to known populations doesn't make it so, even for a manager. It's true because I say so is hardly a good management stance and certainly not management science. Moreover, management wisdom of this sort is not confirmable without a lot of historical evidence that really can't be obtained.

Second, if you again look at the VC professionals you see them invariably "sharing" the funding of their ventures with other VCs. They are not that naturally generous. Of course, they are spreading the risk, but equally if not more important, when other firms go in on the deal, it confirms the lead VC's judgment. If they didn't get anyone else to join them, it would give the lead VC pause.

Finally, venturing into the Unknown requires commitment in persistence and desire. These are made evident by the presence of an enthusiastic team.

Means at Hand and Acceptable Loss: Easy, limited seed money

Make it easy for the EI to get started. Set a threshold amount of financial resource that is easily acquired without management's decision. If the EI's needs exceed that threshold, then treat the price of that step as too high, and challenge them to devise a lower-cost step. They can keep going back to the well if they are keeping their performance promises and learning, particularly if they have picked up additional partners along the way.

For example, Adobe has a process called Kickbox (kickbox.adobe.com). Kickbox packages a proven innovation process into a self-contained kit available to all Adobe employees. Upon application, the EI gets the kit that includes a $1,000 preloaded debit card, the use of which in this case is *not* supervised by management. Other companies have a single manager or a small committee, but often they don't make the "plunge" decision, and instead, oversee ventures that have been decided on by the employee.

The finance functions understandably often have viscerally negative reactions to these kinds of activities, until they consider that the cost is so low and employees are generally honest. More importantly, the EI who wants to build or preserve reputational capital within the firm (and thus, the possibility for career advancement) has an exceedingly high interest in employing the firm's resources wisely.

Means at Hand: Company equipment, customers, and other assets

The ability to access company facilities is one primary Means at Hand that gives the EI advantage over the NVE. The latter is limited by what tools they can easily use, and any venture where the needed assets are big and expensive is often ruled out. These not easily obtained assets are the competitive advantage for your EI. (Think elaborate lab facilities at a pharmaceutical company.) These assets are one of the most important reasons entrepreneurial types chose to stay within the large firm. Whatever the tool is, you'd like to make it available to your EIs on a noninterference or after-hours basis.

In addition to hard assets like equipment, the large firm has the ability to facilitate the connection between the EI and actual customers. A sales pitch that might take the NVE weeks or months to get in front of a real customer might take as little as a day for the large company that organizes to make this easy. It's another important competitive advantage in that contact with a real customer leads to learning, and the faster you learn, the more likelihood of success.

Means at Hand: Do it on your own time

This is the most straightforward policy. At inception, let the project be elective on the part of the EI and have the early work done on the EI's own time—beyond the 40 hours he or she is paid for. In most well-run companies, the day job should be doable in the standard work week. Simply permit and encourage the EI to use time beyond that on things of their own interest, if they exist.

This assumes that the EI's day-job performance is satisfactory, and there are no short-term, episodic pressures that require the EI to sacrifice to their day-job team. A chronic condition of more than 40 hours required for the day job is evidence of questionable company management. Such a condition may make good business sense in some ways, but it will curtail entrepreneurship.

The personal commitment of discretionary time has an important benefit in that it insures presence of desire. Only committed people will employ it in favor of entrepreneurship. The others will spend this discretionary time on their current job in hopes of faster advancement. Management's public support of after-hours experimentation essentially allows any firm to simulate the famous 3M 15% time rule that has found its way into any number of other firms, notoriously Google. Incidentally, contrary to popular perception, a minority of people in 3M use that 15% to pursue their own thing. Most are engaged in their regular jobs, but they have the ability and *permission to pursue something on their own if they want to.* What the 15% rule does is to encourage and condone the majority of folk to *legitimately help* a colleague who asks for it.

This management policy synthesizes slack, which has been removed by broad scale efficiency efforts. But, without some slack, intrapreneurial efforts won't happen. Some firms essentially have the strategy of focusing every work hour the employee offers on the day job either by "corporate culture" (e.g., Silicon Valley, company busses, etc.) or by close, constant supervision. Again, what may be good business policy for some things has adverse consequences on others, in this case entrepreneurialism.

To be sure, such a policy can more easily be implemented in a properous firm. Management in firms under severe financial stress will have to be careful and clever. There is also a set of problems that must be addressed in the case of hourly workers and in union shops that are beyond the scope of this note.

Acceptable Loss: Reputation

There are four areas: the EI, his or her helpers, managers, and the firm as a whole. Simply put, manage all of them thoughtfully and firmly. Essentially, you want no reputational exposure for the firm and as little as possible for all the others. You control this exposure by the nature of the steps you permit.

Mentoring/coaching service

Consider establishing your own version of the MIT Venture Mentoring Service mentioned earlier. Imagine a screened group of experienced volunteers, each of whom is prepared to devote 6 to 8 hours a year for a given venture, predominantly in advisory meetings with the entrepreneurial team. Such a group would have a number of advantages.

First, previous studies have revealed that mentorship has effected a positive impact on venture outcomes. This can only help the fledgling inventors in your organization.

Second, it's a way of broadening involvement and support in the firm's entrepreneurial pursuits. Talented people get to play even if they don't want to pursue ideas themselves. In due course, they will develop greater understanding and skills of the entrepreneurial process. Moreover, in most organizations, the optics of this sort of program would be good.

Third, the MIT experience shows that *venture ideas that elicit a high degree of initial mentor interest are more likely to ultimately reach commercialization.*[*] Thus, the aggregate mentor judgment can be an early proxy for the quality of the idea. Over time, this might become one more piece in the evaluation process of a decision-making alternative to NPV.

A scientific way to handle states IV and V

If you are into scientific management, you can analytically validate this approach, at least to some degree. For example, you can track and correlate things like the number of team members at inception, aggregate mentor interest, mentor characteristics, participants' performance ratings and/or success in previous attempts.

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* Upon venture application, each member of the VMS body makes a single decision—whether to express a desire to work with the venture. This decision is made very early in a venture's life cycle, often near inception. It is based solely on reading a standardized summary of the business proposition and without meeting the founding team, in contrast to the multistage decision processes of managers or professional investors, as in the case of External Entrepreneurs. Interestingly, mentor predictive ability holds true for R&D-intensive ventures and not for other sectors such as consumer products. Moreover, mentor expertise or experience is not a critical factor in mentors' *collective* ability to differentiate venture ideas *nor is extensive specialized training and knowledge.* Scott, Pian, Lubynsky "Are 'Better' Ideas More Likely to Succeed? An Empirical Analysis of Startup Evaluation." Harvard Business School Working Paper 16-013, July 2015

What sort of patterns emerge, and how can the process be refined and improved? Ultimately, you might get to historical data where you can honestly use statistics, and maybe even form a loose discount factor. This can be comforting to analytic types and senior managers who find it difficult to abandon NPV without a scientific alternative.

This sort of process can be implemented cheaply on a limited experimental or local basis. And it addresses the problems outlined at the beginning of this note. This process:

- Releases the EI from the constraint of standard processes
- Enables swift decision-making and fast action
- Through team formation, can jump across silos to involved people who *can* get the EI in direct contact with customers.

Justifications

The business justification for this particular approach is (1) it is cheap, and (2) it increases the likelihood of success. In states I through III, you are chasing a plan. You either hit or miss, and if the latter, it is a failure for the firm as well as the individual. Ventures in state V are *successful as long as something useful turns up.* This is a much bigger opportunity space with the possibility of all sorts of different solutions, and even the discovery of different problems.

The social justification is strong: Whether you know it or not, you have entrepreneurial types who are probably frustrated. If you don't do something like this, they will remain in place, but demotivated. Or they will leave and take their idea, or at least their talents, with them. Experience has shown that EIs respond very favorably to honest attempts by management to enable them to be entrepreneurial. Net, there are long-term costs for not trying something like this.

Classic financial calculations

When do you do these calculations? The transition from state IV to III requires judgment. The more you act (cheaply), the more you learn and the more your project moves from the Unknown to the Known and becomes susceptible to classic methods. So far, there are no a priori rules governing when to apply those criteria. With good fortune, there will come a point when

- significant resources are required and it needs to be thought of as an investment, instead of an expense, and
- you have actual data that you can honestly say projections and other analytic tools apply.

At this point management, someone with a budget, needs to be involved. But the basic principle of Acceptable Loss should be maintained until analytic methods can legitimately be applied. For example:

- It still should be so big that projections are unnecessary. But you should have more confidence that the "it" can be real and is really that big. You should have, and continue to get, answers to things like how many customers and how much do they care?

- You should have a much better handle on what it will cost to achieve the prize.

At this point you are probably making an investment, but you are still buying an option on the future. And you are still betting primarily on the EI and his or her team, not on the idea and whether it can be realized. Success is still pretty uncertain and anyone's judgment is not that bankable. But you do know whether you have confidence in the people. Do they have the desire? A track record of accomplishment? The ability to communicate? The presence of these and other traits will give you confidence in making that investment.

You still want to keep costs low, and it is management's decision as to what represents Acceptable Loss, in terms of resources and reputation, both the EI's and the enterprise's.

It is also at this point you may want to employ a different structure like moving the venture into an incubator or establishing a formally funded team.

Many companies are employing frequent (every few weeks) but *short* (less than an hour) meetings that focus on:

- What has been accomplished (vis-à-vis what was promised), and what has been learned about the market, the technology, the business model, etc. since the last meeting, and
- What will be done over the next short period of time, what is needed to do it, and how will those resources be acquired?

This is *not* on classic project review topics, such as the plan or financial projections.

Especially for the Executive

We have already addressed some of the things management must do to support EIs, such as coaching and mentoring, granting local exemptions for bending company policies, and protecting the Entrepreneur Inside from being fired. Now let's look at some of the things an executive should consider if they want their EIs to venture into the Unknown.

1. Ensure that desire and business imperative is in place

Describe why entrepreneurship inside the company is strategically important and how it relates to your vision for the firm. You need to create legitimacy for the activity as well as establish it on the list of corporate priorities. Little happens in an organization by way of change unless it is tied to a business imperative. Part of this might include setting explicit goals for far-from-core innovation, if and when appropriate.

That's the mechanical side of the equation. Even more important is whether you and your executive team *want* to license ventures into the Unknown. Many businesses get dragged kicking and screaming into far-from-core venturing, often because they can't meet their growth targets by more predictable means. This negative desire covered previously is adequate to start but inadequate in the long term. Some members of the executive team, ideally including the CEO, must *want* for their firm to venture into the Unknown in the same way as Thomas

Jefferson did with Lewis and Clark. As we will determine shortly, making an existing organization entrepreneur friendly is, in and of itself, a venture into the Unknown. No one so far has devised a recipe that can be universally applied. You act your way into this future using ALB and it requires desire.

But you can do this fairly well in a risk-free way. Since there is no mathematically honest way of initially gauging the costs and benefits of this meta-corporate venture, you and your team simply apply the principle of Affordable Loss. You decide how much you can spend in terms of the relevant currencies of time, money, reputation, and the like. Once agreed upon, you drive your effort consistent with that criterion. Just like the entrepreneur, you have determined what you are prepared to pay to play. Even if it doesn't turn out, the risk has vanished.

And that leads to a further exploration of Acceptable Loss.

2. Manage Acceptable Loss

You need to think of yourself as launching multiple expeditions, each and all governed by Acceptable Loss. There are at least three areas where this principle needs to be employed. The first is managing your portfolio of ventures *without* using estimates and discount cash flows as your primary metric. Let's be honest. Everyone knows that in the Unknown, these are largely fiction. Unlike the majority of your projects where you've assigned some sort of expected value numbers, you shouldn't do that with your ventures into the Unknown. It's mathematically illogical. By the way, that doesn't mean you shouldn't supervise and review your portfolio. It just means that the normal evaluation metrics on a project-by-project basis shouldn't hold much sway. This will be the subject of a future section.

You also must, of course, manage the acceptable loss for the firm as a whole. You are the ultimate arbitrator of that. You get to say how much financial and reputational exposure you are willing to undertake.

Third, you must manage the acceptable loss of your Entrepreneurs Inside. How can you license and legitimize their deviances and ameliorate the consequences of failure? How can you protect their career path? This is a real conundrum, as described earlier, and so far, few large organizations have even partially solved it.

3. Manage the dual operating system

Manage how the PPE Operating System impacts efforts of your EI. We already talked about the dual operating system at work in a large organization that seeks to be innovative or entrepreneurial. You must assume responsibility for the healthy operation of both systems.

The tendency, and the academic and consulting preferred solution, is to sequester them, but we don't think that's necessary, nor is it wise if you can avoid it. And it's not even possible if you are trying to become generally more entrepreneurial within your firm. It's an ongoing challenge to keep entrepreneurship active and in the mainstream. Your job is to understand how the structure impedes this kind of activity, and then how you relax the structure when it's necessary for the experiment to continue. How do you permit and encourage managers to do this for their Entrepreneurs Inside?

Initially, you grant local protection and exemptions. Over time, you will need to consider system-wide changes in structures, policies, procedures and the like. More detail is beyond our scope at this point, but it will include changes in what information is available and to whom; how decisions are made; how people are recruited, developed, rewarded and retained; and much more.

4. Create slack even if there is none, formally

The perfect PPE organization has been carefully engineered to drive out anything that resembles waste. It's a lean, mean machine with each part perfectly suited to its task, and when taken as a whole, a marvel of efficiency. When something goes wrong, we implement a "system fix" to insure it never happens again. There is no slack because, theoretically, there doesn't need to be. But if there is no slack, the only kind of innovation you can pursue is an oxymoronic predictable innovation.

Yet for venturing to thrive, there must be slack. It can be formal, as you might find in 3M or Google, or it can be informally built into the unwritten rules of the game. How you do it will be idiosyncratic to your enterprise, but you must create slack.

5. Validate the logic over time

For ALB to live in the organization in the long term, it must be legitimate. For you, this means using whatever existing meetings, forums, education programs, and the like (not too loudly at first) to explain what ALB is and to explain why this complementary logic is valid and needed in certain cases. Remember, evidence trumps exhortation and you don't want to be too loud, too soon.

Then you must see to it that the validity is proven to the organization by successful experiments. Make sure your early experiments are successful and produce some sort of economic value, so people can see for themselves that it's not just some academic idea. Show that entrepreneurial activity is actually something that works in your system.

This may sound very challenging, but the gist is really simple. Research shows that people already are using ALB successfully in your organization, and you probably have lots of examples where these ideas have been used. It's just they've been completely under the radar.

Here are the major reasons for the apparent lack of entrepreneurial behavior:

1. ALB is not supported and, in fact, is extinguished by the pervasiveness of the PPE logic. Traditional command and control structures inhibit entrepreneurial thought and action at all levels of the organization.
2. Desire is absent in organizations today as a criteria for anything.

3. Acceptable Loss is simply too high. It doesn't make sense to act entrepreneurially for the average employee, and the same is true in different ways for their managers and senior executives.
4. There is a significant absence of support systems commonly available to NVEs, such as peers and mentoring.
5. You personally, as a senior executive, and organizationally, as a culture, are not skilled at coaching and supporting it. Management pretends they know things when they don't, and that things are predictable when they are not.

This is important: *It's not because you don't have enough entrepreneurs.* You actually have rafts of people who could be, and often are, acting entrepreneurially. However, you and they may not know it.

Studies have shown that there is entrepreneurial action within most organizations. It's just out of sight and very tough sledding. We know that every person is capable of ALB; they routinely employ it, although often outside of work. Moreover, these EIs track the ALB logic perfectly. They act because they have a desire, and not because they expect money or career development. They keep Acceptable Loss low (both their own and their organization's), and they carefully bring other people along through what has been termed Progressive Disclosure. They use their Means at Hand—whatever they, and those people close to them, have.

Net, they use ALB, but very quietly. Try this: walk down the hall and explain ALB to those you encounter. Ask them, have you ever seen this at work in our firm? You'll find many examples, such as, "That's how Shirley changed the location of the water cooler." "It's how Marty got us all to use the new software." In fact, when we've asked, the overwhelming majority of people acknowledged they themselves have used ALB to solve problems in their businesses at varying points in time. And they were quite articulate about the time they used it, the way in which they used it, and what they learned from it. And their colleagues see it as well.

You don't have to look far at all to find reports in the media of large companies (and even the federal government) conducting contests that allow people to share all their entrepreneurial ideas for new businesses. Floods of new ideas come out that people had been sitting on for years because no one ever asked. And a few executives are even surprised, "We have bright ideas around here, and don't act on them."

It makes a lot of sense if you think about it. ALB isn't anything new. What we are advocating is simply rediscovering what you already know, practice, and develop in your facility. But it's being able to apply it in a variety of different settings where heretofore you thought it was inappropriate or impossible.

When *entrepreneur* is redefined in the form of ALB rather than "how many of you are Entrepreneurs Inside," everybody will agree they use ALB. And virtually none of them will define themselves as EIs. But that's not such a terrible thing because we should be focused not on turning everyone into an entrepreneur, but instead to developing their capacity to think and act entrepreneurially and to use it wisely when the opportunity presents itself. That's a very different agenda than turning everyone into an entrepreneur.

6. Implement Act, Learn, Build across your organization

What about making the whole company entrepreneurial? It can be an appealing idea, a dangerous idea, or even nonsense. Remember the various stances you might take that we discussed: Make it Happen, Help it Happen, Let it Happen, Ignore it, Keep it from Happening. What's going to be your posture?

There is not much point to *Keep it from Happening.* It's unnecessary work if the proposed effort is small (or on the employee's own time). It might make sense if the proposal is distracting or jeopardizing the employee's career. But as a practical matter, you can ignore this option, particularly at the executive level.

Make it Happen. It should rarely, if ever, be up to you to make a specific project happen unless it's your desire, in which case you are actually the venturer—the one in a Make it Happen mode. If the project is someone else's venture into the Unknown, for the reasons we've already covered, it's pointless to make it an assignment. As for institutionalizing it in some way within your firm, the valid reasons for this are already stated: It is strategically important, and it's something that you desire. Even here, you want to be careful; you make it happen primarily through leadership, not by direction.

In most cases, your day-to-day activities will be either Let it Happen or Help it Happen, and most likely, you won't have to concern yourself one way or the other. You can adopt Let it Happen and wait until you are enrolled by a pioneer into helping.

As for institutionalizing it across the entire organization, keep in mind that with ALB the solution is people—how they think and act. Systems are only partially effective.

As mentioned earlier, becoming corporate-entrepreneur friendly is a venture into the Unknown. You will breed ALB by using ALB: Start with a desire. Acknowledge how things are working right now. Take small, smart steps. Learn. Build on what you find.

In short, act your way into the future—learning by doing at every step. As an executive, get your hands dirty. Interfere a little, but not too much.

7. The Executive's Long View

There have been examples of large organizations that are great innovators in the Unknown, but they are few. Management academia and consulting companies have worked hard on this issue in hopes of creating more. There are things you can do to get better, but the success stories of a large old organization regularly and successfully venturing into the Unknown remain sparse.

Consequently, as a firm or division you probably want to edge into becoming more entrepreneurial. As observed earlier, expenditures that don't result in success are a waste, and in today's world, you want to avoid showing any waste. During the time of growth prior to 1990, corporate surplus (the source of the essential slack) was hidden. Since then, large organizations have become increasingly lean through Six Sigma and other programs that, by their nature, remove slack and resiliency both culturally and actually.

Public reporting has become a lot more transparent as well. The Street quickly identifies waste and justifiably puts pressure on CEOs to rout it out. Moreover, it's not unusual for investors to believe that VCs, small companies, and startups offer better investment options for out-of-the-box innovation than large corporations. Net, at this point in our economic history, big public investments in the Unknown could be dangerous, particularly since we don't have financial tools to help justify those investments.

As the executive in charge, it is particularly dicey if you are being pushed into this territory rather than enthusiastically embracing it. It is the exception where a CEO or autonomous business executive has the desire for entrepreneurship and believes he or she can do better than the perceived long odds. But, whichever the case for you, the only thing that provides your management or investors some assurance is a track record of success, and if that is not already in place, you can't fabricate it in advance. You're left with how to build one in a reasonable length of time. But how to start enough experiments that ultimately yield convincing performance? And how to do it ideally at zero cost?

Closing Thoughts

If you are an Entrepreneur Inside, don't burden your venture with the requirement that it must somehow change your organization or even that your organization must change. It's unfair *to your idea* to require it to be anything other than itself. And trying to make it otherwise will add unnecessary work to your plate and, ultimately, make you less likely to be successful.

Simply through your own thinking and action and by the results you produce, you will get other people to think differently, and you can have enormous impact this way. The recipe is simple: act exactly as you would if you were on your own as an NVE. Be clever, and look for innovative ways to work within the bounds of your own and your organization's Acceptable Loss.

That being said, there's no reason to dismiss, at least to yourself, the importance of your firm's becoming fluent with ALB as a complement to Predict, Plan, and Execute. There are many of us who believe that ALB is the missing leg to the stool of general management in the 21st century.

Like most, your firm is probably struggling with meeting growth targets. More often than not, companies are encountering diminishing returns in efforts to squeeze waste and inefficiencies out of existing operations. Mergers and acquisitions haven't proven that reliable, and near-term line extensions and innovations aren't doing the trick. What's left? Venturing, as safely as you can, beyond the predictable.

Large organizations aren't living to ripe old ages these days. Their survival might well lie in the ability to embrace ALB. Your small successful effort could well be one piece in proving this is possible. It takes faith and some tools that, hopefully, we've outlined herein. Equip yourself smartly. And then Just Start!

Glossary: Corporate Entrepreneurship Tools & Methods

Here is a list of the entrepreneurial tools and methods currently in use by large organizations. University students will typically have a term paper assignment. Some pick a particular firm and study its various CE efforts. Then answer which of these tools and methods are applied and how? Others take a particular tool or method and investigate what makes it effective or not, using three or four firms as examples.

Incubators/skunkworks/innovation centers

Incubators, skunkworks, and innovation centers are typically characterized by a location, often remote to some degree, to a firm's main campus. Organizations using these methods are generally aimed at breeding new businesses and testing new business models. They are typically sequestered from existing business units. Beyond a physical location, participating ventures are provided autonomy, funding, infrastructural support and protection. Skunkworks has, of course, been around since Lockheed in the 1950s. Incubators are more recent arrivals on the scene. The internal versions are focused on enabling people within the firm to be entrepreneurial. External versions will be dealt with below.

Incubators and accelerators (external)

"A business incubator in the purest sense refers to an office park or building complex that charges businesses, typically new businesses that cannot afford their own offices, some rent in exchange for space within the incubator and some administrative services and infrastructural support. The accelerator term was born to brand groups that, in addition to providing office space (though not all do), have the express focus of 'accelerating' a startup from birth to viable company." Jared Konczal, Ewing Marion Kauffman Foundation. Accelerators typically provide incubator participants with seed investment, education, introductions to VCs, mentorship, and other assets in exchange for equity. Large companies are sponsoring incubators for New Venture Entrepreneurs (NVEs) as a way of engaging and gaining access to the larger entrepreneurship ecosystem. The use of accelerators by large companies seems to be rare.

Entrepreneurship courses and conferences

Companies use conferences and training as a way to build entrepreneurial thinking and skills and to provide social support for their Entrepreneurs Inside. Either can be internal (on-site and managed by the employer) or external (typically offsite with attendees from multiple companies). Some events are focused on entrepreneurship and others on specific tools like Design Thinking. They can be, but are not necessarily, tightly managed or institutionalized and often left up to the individual and his or her manager. Conferences and courses often play a part in one of the other tools or methods described in this summary.

Company meetings

These are typically used as part of a communication plan in support of a widespread innovation or entrepreneurship effort. Large meetings are effective in educating the organization of the strategic importance of entrepreneurship and the specific activities the firm is undertaking. As such, they are best conceived as part of planned organizational change.

Employee suggestion programs

Typically a firm-wide, ongoing initiative to collect ideas of many sorts such as improving day-to-day operations, solving existing problems, and pursuing new business opportunities. The latter use is a CE tool. Submitted ideas are then evaluated by management, and those selected are implemented within existing management structures, often without the involvement of the idea generator. The overall aim is to harness the creativity of every employee and, often, to contribute to forming a culture that supports innovation.

Innovation fairs

A one- or two-day event that showcases, through presentations and demonstrations, ongoing innovation projects, technologies, and the like. They are typically company- or division-wide with an aim to excite and educate people in the firm's innovation efforts. They also serve as a great place for cross-pollination of ideas. They can include competition for awards, prizes and funding.

Business plan competitions

A one- or two-day event that combines the innovation fair and the employee suggestion program. Entries are solicited and teams of employees form in advance to create a business plan for their idea. These plans are submitted and attendance is often competitively prescreened. The invited teams then compete for the "prize" of implementation support either by, or independent of, an existing business unit. An important side benefit is "just in time" training of innovation and entrepreneurship.

Hackathons (internal)

A hackathon can be thought of as a version of an innovation fair with a particular focus: Teams (established or ad hoc) create prototypes and compete in front of a panel of judges to solve existing, pre-selected challenges often for awards or prizes. Aim is to surface and kick-start solutions. [Not widely used, so far as I can tell.]

Hackathons (external)

A method of engaging the external entrepreneurship ecosystem. Companies invite outsiders to build something related to the sponsor's business and, thus, provide an infusion of fresh thinking or new directions. They can be a way to attract talent or get people energized about participating in a big vision; or they can be a way to get people creating things your customers might want, or that might plug into a product or service you are planning to offer.

Project/innovation/venture teams (temporary organizations within the existing line organization)

Often ad hoc, temporary parallel organizations chartered by management to address a specific project and generally run within an existing business unit. Often they live with reduced constraints and are somewhat out of the mainstream, but generally, some normal constraints and management processes remain. Typically, there is a core group of fully dedicated staff, but some of the participants may only be part time. They are focused, budgeted and deadlined. They often employ a company-adopted method such as Lean Startup (GE, Intuit) or Rapid Launch Program.

Classic R&D division

This formal organizational house for corporate innovation and research is not limited to entrepreneurial ventures. Much of the activity is efficiency innovation and close-in adjacencies. They do act as incubators for entrepreneurial efforts.

New Venture Division

A permanent organization or management structure (corporate or divisional level) set up to house those efforts where it is not yet clear whether the result will be integrated into an existing business unit or spun off. Typically, they focus to exploit existing company assets such as technology, market access, etc. Often, NVD management, leadership, systems, and culture are different from the parent. Bold, breakthrough innovations and new strategic directions are expected. There are well-recognized difficulties in getting the results integrated into the existing operating divisions (NIH).

Spin-offs and/or spin outs

The end point of a successful venture, whatever its source or developmental path, is a formal legal entity separate from the parent. The distinctions between spinoff and spin out are not agreed upon, but the difference between these terms is not material for our purposes. In some cases, the spun firm remains closely aligned with the parent (through interlocking stock ownership, contracts, etc.). In other cases, it is totally separate, even mildly competitive. In some cases, stock in the spun firm is allocated to parent-firm shareholders; in others, it is sold on the open market or to another company.

Acquisitions and educational acquisitions

Acquisitions are a classic way of building new businesses. They are nearly always a result of well-researched corporate strategy and many hours of financial modeling and justification. They are often used as a method to expand into a new area of business to reduce uncertainty and accelerate entry. However, they can allow glossing over of misunderstandings of the existing businesses of both parties. They all too often encounter difficulties in integration, frequently destroying company value. They might not be considered entrepreneurial in the way we define CE. They become entrepreneurial when an existing product, service, technology, etc. is being propelled into an unknown market, or a new product, service, technology into an existing market.

The educational acquisition, the IP acquisition, and the recent arrival, acqui-hire, have the special intent of acquiring knowledge and/or talent, generally to bolt on to the acquiring company's existing assets, with less, if any, regard to the acquired company's business. In this structure, a small firm is purchased primarily for the key people involved and/or their intellectual property. In some versions, the acquired business is shut down or sold off, and the acquired talent assigned to the acquiring firm's previously determined interests that justified the acquisition. (This may or may not be entrepreneurial, as we define it.) In other cases, the talent is given the task of taking the acquiring firm's products, technology, etc. into a new market.

Strategic alliances, partnerships, and joint ventures

Given widespread familiarity, it is unnecessary to describe further these classic ways of venturing into new areas or building new businesses. When the purpose of the relationship is to do something that neither partner by itself has done before, they become tools for corporate entrepreneurship.

Corporate venture capital (internal)

This is the corporate emulation of the professional VC or angel investor. Portfolios are assembled by internal strategists acting as VCs and are typically focused on the firm's strategic efforts, such as buttressing existing businesses or developing new, yet related, areas. Sometimes they are expected to help the investing firm to develop innovation chops. Track records are spotty and there is a lot of reported disappointment. It would seem that many CVC units are dissolved within a few years, in part because of the difficulty in finding good investment talent from inside a firm when compared to the pros. Moreover, these units often do not have access to the VCs' "deal stream."

Corporate venture capital (external)

Similar to internal corporate venture capital, except the firm supplies investment to an external, often existing, VC to create a fund that is focused in an area for the sponsoring firm. This has the benefit of having seasoned professionals managing the fund as well as far better access to a "deal stream." The objective is to be a magnet to attract relevant ideas that can then be captured by the sponsoring firm. Unfortunately, the track record of these venture funds is also spotty, with sponsoring firms often claiming that, although it was a good investment, the challenges of absorbing new ideas from the outside is formidable.

Open source innovation

Essentially, a philosophy that argues for reducing the boundaries between a firm and its environment with regard to innovation. Its aim is to expand and exploit both knowledge and markets lying outside of the firm. Structures are established to enable freer engagement and exchange of ideas, technologies, and the like. It involves customers and beyond and often employs many of the tools and methods summarized in this glossary. In some firms, entrepreneurship is considered as a part of open innovation.

Technology transfer offices

One aim of these offices is to market and sell or license the firm's technology assets. Sometimes they perform the additional function of linking the firm with the complementary offices in universities or the government.