15.394
Designing and Leading the Entrepreneurial Organization

MIT Sloan School of Management

Agenda

- Re Cap
- Introduction to Employment Models

Course Overview

Leadership			
Setting Direction	Building Organizational Capabilities	Mobilizing Employees	Sustaining Momentum

Social Capital

Setting Direction

Social Capital

Leadership

Vision

Strategy

Cases:
- Erik Peterson (2 days)
- Zaplet
- Jerry Sanders
- Heidi Roizen

Building Organizational Capabilities

Organizational Systems

✠ Commitment

✠ Engineering

✠ Star

✠ Bureaucracy

✠ Autocracy

Cases:

- HP

- Data General

- Apple Computer

- Sun Microsystems

- Cypress Semiconductor

Stanford Project on Emerging Companies

- How do founders of start-ups think about managing and organizing their firms
- Do they have (implicitly or explicitly) a model for what type of firm they want to build?
- Are there advantages or disadvantages to these models, especially with regard to managing human resources?
- Does organizational alignment of strategy and type of model affect firm performance?
  - Survival?
  - Growth rates
  - Probability of IPO?
  - Profitability?

SPEC Sample

- High-tech firms in Silicon Valley
- Over sampled larger and younger firms
  - 100 firms studied in 1994, (Revisited in 1996)
  - 75 additional firms added in 1995, (Revisited in 1997-8)

- In 1996:
  - Median Age: 7.3 Years
  - Median Size: 89 employees
    - Range: 9 to 2042
  - A Founder is still CEO: 55%
  - Public Company: 38%

- As of December 2000:
  - 82 firms are public
  - 52 firms were acquired or merged
  - 12 firms failed

SPEC Design

Phase One

- Retrospective histories from:
  - Founder
  - CEO
  - Senior executive with HR responsibility
- Information from:
  - Company documents (e.g., business plans)
  - Public sources (e.g., newspapers)

Phase Two

- Conduct follow-up interviews after:
  - Two years
  - Five years
- Build continuous record from public sources, including:
  - IPOs
  - Mergers/acquisitions
  - Executive changes

What is your (implicit) model?

- Why do people work at your company? What makes them get out of bed in the morning?

- What are the most important characteristics that you look for when hiring new people?

- How are people controlled in your company? How do you know that people are doing the right thing when you aren't around?

Employment Models: Core Dimensions

Basis of Attachment & Retention	• Compensation ("money") • Qualities of the work ("work") • Work group as community ("love")
Criterion for Selection	• Skills • Exceptional talent/potential • Fit with the team or organization
Means of Control & Coordination	• Direct monitoring • Peer and/or cultural control • Reliance on professional standards • Formal processes and procedures

The Star Model

Attachment to challenging work
Select "stars," usually from elite sources
Professional control

"We recruit only top talent, pay them top wages, and give them the resources and autonomy they need to do their job."

"Scientists like autonomy and independence. I value it myself and it's important to make sure that they have that. They feel the environment is exciting and that the leadership is there to provide the kind of place where their career is constantly renewing and growing. This essentially is most of my work-- to see that they reach their maximum potential to grow."

The Commitment Model

Attachment to people or culture
Select for cultural fit
Cultural/peer control

"I wanted to build the kind of company where people would only leave when they retire."

"I think people should be treated as human beings, as real people. And really care for them. We are still pretty much like family. We try to keep as much of that as possible even as the company is bigger. That's one think I learned from HP [Hewlett-Packard]. Bill Hewlett still flipped hamburgers for us at the company picnic."

The Engineering Model

Attachment to challenging work
Select for current competence
Peer control

"We were very committed. It was a skunk-works mentality and the binding energy was very high."

"We wanted to assemble teams of people who are turned on by difficult problems. The emphasis was to build an environment of individuals who are performance driven, achievement oriented, customer focused, feel relatively at ease to join and disband from specific teams, skilled at interdisciplinary problem solving irrespective of culture or discipline."

The Bureaucracy Model

Attachment to work
Select for current competence
Control by formal procedures

"We're not hierarchical as much as we are procedures, methodologies, and systems. I really try to see that everybody in the company maintains procedures rather than just hand wave and do things any way. We don't want to be so hierarchical as to be startling, nor do we want to be so flat as to have everybody poking into everybody else's business."

"We make sure things are documented, have job descriptions for people, project descriptions, and pretty rigorous project management techniques."

The Autocracy Model

Attachment to compensation
Select for current competence
Direct monitoring

"One thing we wanted to avoid was consensus management. I think it lends itself to major slow-downs in development schedules. We have good communication around a core group, but we certainly know who makes the call on things… We don't have the resources available to spend a lot of time getting everyone warm and fuzzy rather than to a decision."

"You work, you get paid."

Employment Models

Dimensions			Employment Model
Attachment	Selection	Control	
Work	*Potential*	*Professional*	**Star**
Work	*Skill*	*Cultural*	**Engineering**
Love	*Fit*	*Cultural*	**Commitment**
Work	*Skill*	*Formal*	**Bureaucracy**
Money	*Skill*	*Direct*	**Autocracy**

Employment Models

Model	Founder	CEO
Star	9%	6%
Commitment	13%	12%
Engineering	32%	25%
Bureaucracy	7%	20%
Autocracy	6%	5%
Hybrids	33%	32%

Employment Models

Blueprint	Advantages	Disadvantages
Star		
Commitment		
Engineering		
Bureaucracy		
Autocracy		
Hybrid		

Employment Models

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Business Strategies

Radical Innovation	49%
Technology Enhancement	20%
Sales, Marketing or Service	14%
Cost Minimization	7%
Hybrid	10%

Which strategy "fits" which model?

Alignment with Strategy

	Innovation	Enhancement	Sales, Marketing or Service	Cost
STAR	✔	✔		
COMMITMENT			✔	
ENGINEERING	✔	✔	✔	✔
AUTOCRACY				✔
BUREAUCRACY		✔	✔	

Strategy/Model Alignment

- Commitment firms more likely to pursue a marketing-service strategy.

- Star firms most likely to compete through innovation or technological enhancement.

- Engineering model is common across strategies.

- Autocracy prevalent among firms competing through a cost-minimization strategy.

Predictions about future performance?

Star	
Commitment	
Engineering	
Bureaucracy	
Autocracy	
Hybrids	

Effects of Founder's Models

✠ Time to IPO
  ✠ Commitment model most likely/fastest to go public (and, to a lesser extent, star models).
  ✠ Hybrid models are the slowest/least likely to go public.

✠ Likelihood of failure
  ✠ All other things equal, commitment firms are significantly less likely to fail (disappear, de-listing, liquidation).

✠ Post-IPO Performance
  ✠ Star firms have the largest post-IPO increases in market cap, followed closely by commitment firms.
  ✠ Autocracy firms perform the worst, followed by engineering.

Effects of Changing the Model

⚔ Changing the Founder's Model

  ⚔ Is most likely to occur when the CEO is replaced

  ⚔ Is more likely to occur with star and commitment models

  ⚔ Is most likely to change toward a bureaucracy

  ⚔ Is associated with a lower probability of IPO

  ⚔ Increases the likelihood of failure

  ⚔ Has less growth in market cap after going public

  ⚔ Tends to have more disruptive effects when the move is away from one of the basic blueprints.

  ⚔ Is higher when models shift toward a bureaucracy or hybrid and lower in a shift to an engineering model.

Implications?

✠ Compelling evidence of the benefits of having a consistent employment model.

✠ Entrepreneurs (and change agents) should be sensitive to the impact of different models:

  ✠ The effects of history (the founder's model)

  ✠ Issues of "lock-in" and scalability

  ✠ The need for measured growth

  ✠ The importance of clarity about what the model is

  ✠ The potential competitive advantage from thinking strategically about competitive advantage from HR

Publications and Working Papers from the Stanford Project on Emerging Companies

M.D. Burton, J.B. Sorensen and C. Beckman. (2002) "Coming from Good Stock: Career Histories and New Venture Formation" Research in the Sociology of Organizations.

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J.N. Baron, M.D. Burton and M.T. Hannan. (1999) "Building the Iron Cage: Determinants of Managerial Intensity in the Early Years of Organizations" American Sociological Review 64(4):527-547.

J.N. Baron, M.D. Burton and M.T. Hannan. (1999) "Building the Iron Cage: The Genesis of Formal Policies, Positions, and Structures in High-Technology Firms" Journal of Law, Economics, and Organization 5(1):1-41.

M.T. Hannan, M.D. Burton and J.N. Baron. 1996 "Inertia and Change in the Early Years: Employment Relations in Young, High-Technology Firms." Industrial and Corporate Change 5 (2):503-536.

J.N. Baron, M.D. Burton and M.T. Hannan. 1996 "The Road Taken: The Origins and Evolution of Employment Systems in High-Tech Firms." Industrial and Corporate Change 5(2):239-275.

M. D. Burton. 1996. The Emergence and Evolution of Employment Systems in Systems in High Technology Firms. Unpublished Ph.D. Dissertation. Department of Sociology, Stanford University.