ENTREPRENEURIAL EXPERT: LARRY C. FARRELL

THE SPIRIT OF ENTERPRISE

By

Richard J. Goossen

Entrepreneurship in my philosophy is one of the most generic things in the world. The actual practice of entrepreneurship is almost culture-free. Different cultures have different rates of entrepreneurship, because there are some differences in terms of how people perceive it as a career, but once you get into it, an entrepreneur in Hong Kong and entrepreneurs in Sao Paulo, Brazil—they basically have to do the same thing to succeed. It's not like there is a big difference. In that sense it is a bit like a worldwide technology.

Larry C. Farrell
Interview with Rick Goossen

INTRODUCTION TO LARRY C. FARRELL

KEY DATA:	
Name	Larry C. Farrell
Title	Chairman and Founder, The Farrell Company
Affiliation	The Farrell Company, Staunton, VA
Education	B.S. (Arizona), AMP (Harvard)
Experience	Vice President, American Express, New York President, Kepner-Tregoe, Princeton, NJ Board member, The Economic Development Society, U.S., and *The Journal Of Strategic Change*, London
Notable Publications	*Searching for the Spirit Of Enterprise* (1994) *The Entrepreneurial Age* (2000) *Getting Entrepreneurial!* (2003) "Entrepreneuring" (Column), *Across The Board* (2004 – present)

Biographical Highlights

- Over the past two decades, Larry Farrell has personally taught entrepreneurship to more individuals, organizations, and governments than any person in the world.
- Today, with twenty-two affiliates in Asia, Europe, Latin America, and Africa, nearly one million participants in forty countries, across seven languages, have attended The Farrell Company's programs.
- He has written three highly acclaimed practice-oriented books on entrepreneurship.
- His column, "Entrepreneuring," appears regularly in Across the Board, the magazine of the Conference Board, New York City.
- His expertise has been validated throughout the world by a range of Fortune 1000 clients and government organizations.
- He lectures widely at universities, and his entrepreneurial program has formed the basis for university entrepreneurship centers, such as that at Oklahoma City University.

3.1 THE ENTREPRENEURIAL LIFE CYCYLE

> The life cycle of all organizations involves a progression from "entrepreneurial practices" to "managerial practices": start up, high growth, decline, and survival. Maintaining entrepreneurial practices sustains growth and counteracts decline.

How does a company grow? According to Farrell, the key to understanding how companies grow is to understand their "life cycle." Entrepreneurs can learn growth-related lessons from most companies, but only when looking at the right point in their life cycle: when were they at their peak and the envy of their industry?

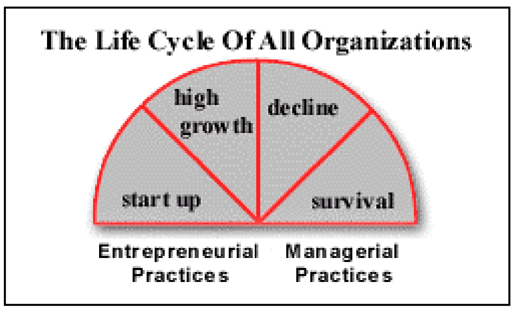
Today's dinosaurs were yesterday's innovators! Even though Wal-Mart displaced Sears, at some point in its life cycle Sears was an innovative company that seized market shares from its rivals and dominated the industry. IBM, likewise, set the pace in its industry for decades prior to the 1980s, when it squandered opportunities to nimble upstarts, such as Microsoft and Apple. The list goes on.

Larry Farrell stresses the fundamental insight that entrepreneurial learning comes from studying companies at the point in their life cycle when they were young, growing rapidly, and innovative. The important implications of this perspective enhance our understanding of how entrepreneurs can sustain growth in their own companies. This is the key to Farrell's message that resonates with conference attendees throughout the world. He states:

> We claim that there are four stages to a company's life cycle: start up, high growth, decline, and survival. This life cycle usually takes about fifty years. On the left hand side of this life cycle chart [see below/next page] is the start up and high growth phase, which may take ten to thirty years. This is where entrepreneurial practices are most dominant. As the

> company gets bigger and older, the original entrepreneurial team may retire. Entrepreneurs rarely replace themselves with entrepreneurs—they replace themselves with professional managers. So, for example, you may have a thirty-year-old company with five thousand employees that is run by MBA-educated professional managers with their modern management theories. This produces a growing bureaucracy, and the company begins to move into the "decline" phase of the company life cycle. At this point, expensive MBA-trained management consultants are called, which typically makes things worse![1]

Farrell notes that when he gives his seminars, a light bulb goes off in the heads of company executives as they start seeing their company in the context of the life cycle and recognize they are on the down side of their company's life cycle.



Larry C. Farrell, Getting Entrepreneurial!, 2003.

The fundamental point for company managers to understand in order to sustain growth is the difference between "the entrepreneurial practices way" and "the managerial practices way." One of the hurdles for MBA-trained managers is that, as Farrell elucidates, "most of the management rules they have learnt in business schools come from studying big companies,"[2] which is, ironically, when those companies were past the entrepreneurial, high growth part of their life cycles. Thus, from Farrell's standpoint, business schools are likely teaching about companies that are operating in a state of decline.

Sustained company growth does not result from being at either extreme of the life cycle spectrum, but from recognizing the dynamic tension and striking a balance between entrepreneurial and managerial practices. Farrell explains:

> I am careful to say to my audience that you need to have both entrepreneurial and managerial skills in the twenty-first century. I would be the first to admit that you cannot run a company with only "crazy" entrepreneurial passion. You also need the discipline of managerial competencies: accountants and production and quality control. But we can't forget the basic principles for creating high growth. As Steve Jobs says, managing is the easy part; growing is the hard part!
>
> With respect to life cycle, a key issue is to maintain a balance in the company between entrepreneurial practices and managerial practices. My contention is that most large companies are about ninety-five percent managerial and five percent entrepreneurial. One of my favorite entrepreneurs in Hong Kong is Victor Fong, of Lee & Fong Company. Victor was a Harvard business school professor earlier on in his career who decided to give up academia and go back to Hong Kong and run the family business. He's an expert in both entrepreneurial and managerial principles. In Victor's opinion that ratio should be eighty percent entrepreneurial and twenty percent managerial. My conclusion is, and we tell all our clients, that companies should at least aim for a fifty-fifty balance between entrepreneurial, high-growth practices and management practices.[3]

<u>Farrell on Peter Drucker, the "Father of Modern Management"</u>

"*The great thing about Peter Drucker is that even though he is 'the father of modern management,' he is smart enough and clever enough to understand that, as he told me in private before we both spoke at a* Business Week *magazine conference in Taiwan, 'You're absolutely right!' [regarding the difficulties large companies face when trying to create real growth]. Drucker lamented that, 'I won't even do consulting for large companies anymore. "Bigger is better" is one of the great myths of the twentieth century. In most industries the mid-sized companies are superior to the giant companies.' Drucker is an individual that doesn't have anything to lose by speaking his mind. He's big enough so he can say we have to re-instill entrepreneurship, since big businesses have become bureaucracies.*

SOURCE: Farrell Interview.

Farrell's first key principle is rooted in an understanding of entrepreneurial and managerial practices and their relationship to the life cycle of organizations. In Getting Entrepreneurial!, Farrell points out:

> The most fundamental thing we have learnt in eighteen years of researching and teaching entrepreneurship is that growing a business and managing a business are separate universes. Entrepreneurs are great at growing businesses. Managers are great at managing businesses. Managing is actually the easy part. Creating and growing a business demand that you do more than manage.[4]

Companies go through a life span, just like individuals. But, while an individual cannot cheat death, a company can. By maintaining entrepreneurial practices and staving off managerial inertia, a company can maintain its growth.

How Tom Peters Led Larry Farrell from "In Search of Excellence" to "In Search of Growth"

"After Tom Peters published In Search of Excellence *in 1982, he called me up. He was aware that I knew a lot about the international training and consulting market. He gave me the marketing rights to his 'Excellence' seminars everywhere except the U.S. and Canada. I started in July 1983 by setting up offices in London and Singapore. I used my own money. I put a huge second mortgage on my home and invested everything in this business. I felt that I could not miss, since the seminars were based on the best-selling business book in history.*

Then, after eighteen months of being on my own and marketing the seminars, on November 5, 1984, the cover of Business Week *magazine ran an expose on the fallacies of the book! They had done their homework. Of Peters' forty-three best-run companies in America, they found that one-third of those companies, only two years after the book came out, were in financial free-fall!*

I learned this in Tokyo while I was trying to convince Texas Instruments to sign up for the 'Excellence' Seminar. The Japanese Human Resources manager pulled out that week's issue of Business Week *[November 5, 1984] and said, 'Mr. Farrell, have you seen this?' After a painful reading of the cover article, I figured one of two things. One, I better get a new product, as this thing may go downhill in a hurry. Second, and probably a lot more importantly, if the best-selling business book in history wasn't reliable eighteen months after it was published, 'Where are we going to find the truth on what it takes to grow businesses?'*

From that thought, and supported by the fact that I now had experience as a small-time entrepreneur, I began to think that maybe people like Peters and all the other gurus are asking the right questions, but they're looking at companies in the wrong era. Instead of looking at IBM in the 1980s, which we now know was already going downhill, maybe you should look at what it did in the 1920s, '30s, and '40s, when it became so great. Instead of looking at the Disney Company today, maybe we should look at the Disney Company in the 1930s, '40s, and '50s, when Walt Disney made it the world's greatest entertainment company. So I pursued this angle, that it's not the mature Fortune 500 type of company we should be studying for secrets to success, but rather the 'entrepreneurial phase' of these companies—the first ten, twenty, thirty years—and the great entrepreneurs that created them. That's what got me started."

SOURCE: Farrell Interview.

3.2 THE ENTREPRENEURIAL BASICS

"The entrepreneurial basics" provide a framework for successful entrepreneurial pursuits: sense of mission, customer/product vision, high-speed innovation, and self-inspired behavior.

Larry Farrell has distilled the insights he has gained from twenty years of research into the actual practices of the world's leading entrepreneurs into four common characteristics of successful start ups. Any entrepreneur can use this basic framework to achieve initial success. And any corporate management team can use the framework to instill growth in the business. Farrell's teaching track record indicates that clients the world over find his analysis compelling.

First, the entrepreneur must have a clear "sense of mission," which he says includes both "what" the mission is and "how" he or she is going to achieve it. This begins with tailoring the company's product to a particular market, which Farrell calls having a product/market strategy. Next is "how" a person can achieve that strategy: "Entrepreneurs have to get this right. Concentrating your energies on becoming the best in the world at one or two key things will give you powerful, competitive advantages."[5] He further states, "When your values directly support your product/market strategy, hang on! It's the most powerful way ever invented to energize a group of individuals to achieve a common purpose. That's why having a powerful sense of mission is the first entrepreneurial practice."[6] The history of IBM shows that a strong sense of mission can fuel company growth, and that a loss of mission can derail a company later in its life cycle.

Farrell explains how IBM, "Big Blue," was founded in 1914 by Thomas Watson, Sr. Watson infused staff with his mission through a pithy set of values: customer service, respect for the individual, and superior effort in all tasks. Watson saw IBM's competitive advantage as outstanding customer service, whatever the product. For years, their corporate advertising simply declared, "IBM Means Service." IBM crowed that because of this service emphasis ninety-five percent of all product ideas came from its customers.[7] Interestingly enough, these values were so pervasive that they were not written down until 1963, when Thomas Watson, Jr., recorded them—fifty years after his father founded the company. The founder's leadership and personal embodiment of core principles had kept these values alive.

IBM was a great organization for a long time. Today it still ranks highly in sales and profits on the Fortune 500 list, but, Farrell notes, "it's fair to say they're past their peak, some twenty years into the down side of their life cycle."[8] IBM's original mission and resulting entrepreneurial zeal evaporated in the 1980s, when IBM nearly collapsed. In the 1990s, despite some revival, IBM still was a lumbering, slow-moving behemoth in an area that was overtaken by innovative high-growth competitors. Company growth is propelled by a strong sense of mission, such as IBM had in the early stage of its life cycle.

Second, the entrepreneur needs to have a clear "customer/product vision." In practical terms, this means the entrepreneur must be very clear about who is going to buy the product and why. Farrell writes, "The single most crucial vision all entrepreneurs must have is a clear picture of a specific set of customers who need and will pay for a specific set of products and services. Nothing could be more basic to the entrepreneur."[9]

Farrell makes a critical point that a successful entrepreneur is almost always both a "product person" and a "customer person." He or she is a make-and-sell craftsman with the classic customer/product vision of an entrepreneur. Farrell recounts the story of Walt Disney, the "greatest product creator in the history of the entertainment business"[10]: Disney produced the first talking cartoon in 1928 (Steamboat Willie), the first feature-length animated cartoon in 1937 (Snow White), the first stereophonic movie in 1940 (Fantasia), and the world's first 360 degree projection at Disneyland in 1955. In television, Disney also created "The Wonderful World of Disney," the longest running prime time series ever (1954–1983). He opened Disneyland in 1955, and before he died in 1966, he laid the groundwork for Disney World in Florida. What was his magic?

According to Farrell, the real "magic" of Walt Disney is simple: "He was a product expert and a customer expert at the same time. A scientist and a salesman. An unbeatable combination."[11] Farrell explains, "The trick, then, is to become passionately expert on your own products and customers. After all, they are the two most important ideas in business."[12]

Third, an entrepreneur needs to deploy "high-speed innovation." Farrell states, "There are two golden rules for high-speed innovation: First, you and your people must see innovation as an absolute necessity in the business, and second, there must be a high sense of urgency to take action and implement new ideas. We call it the necessity to invent and the freedom to act."[13] He notes, "The evidence is indisputable that young, entrepreneurial companies can, and regularly do, simply beat the socks off their larger, more mature competitors. And almost always, their number one competitive advantage is that they move faster and they're more creative than their larger rivals."[14] Further, "I have never known an entrepreneur who operated without pretty high levels of emotion and without a strong sense of urgency."[15] The entrepreneur needs to act swiftly before the competitive landscape changes and the windows of opportunity close.

Farrell tells the tale of Larry Hillblom and the founding of DHL. Hillblom was a young law student in northern California who did freelance courier work on weekends, carrying packages across the Pacific on twenty-hour flights. He scratched out an idea for an international courier company with two of his law school friends who were also freelance couriers. They formed DHL (<u>D</u>alsey, <u>H</u>illblom, and <u>L</u>ynn) and began to offer overnight delivery, but they needed an international network of offices immediately.

The result: "They opened an amazing 120 country offices in the first ten years of DHL's existence (1972 to 1982), which is still the fastest international expansion of any company in history."[16] In the process, Hillblom created a company which today generates approximately $15 billion in revenue. Of course, subsequent international courier companies have been created, such as FedEx, but the rise of DHL was rooted in almost unbelievable high-speed innovation. High-speed innovation was necessary to create the infrastructure to deliver the service represented by DHL. Entrepreneurial success requires acting immediately and decisively in response to an opportunity in the marketplace.

Fourth, an entrepreneur must have "self-inspired behavior"—to spur on himself and his employees. The entrepreneur is the engine, and his company is the vehicle. Farrell clarifies: "To start your own business, *you* have to be self-inspired. Then, to grow your enterprise, you have to learn to inspire others. That is why mastering the final entrepreneurial practice, *self-inspired behavior*, is the underpinning of all entrepreneurial success."[17] He goes on, "To successfully grow beyond the proverbial one-man shop, some enterprising, self-inspired behavior needs to be instilled in the employees. Inspiring yourself is laudable—that's where it has to start—but inspiring ten, or a hundred, or even thousands of workers is the real trick."[18]

Farrell cites the example of Soichiro Honda, founder of the Honda Motor Company, whom he calls "hands down, the most interesting Japanese entrepreneur of the twentieth century."[19] The son of a blacksmith, with only a third grade education, Honda built a company famous for its attention to customers and its efficient system, through which workers (whether in Japan or in the U.S.) created highly competitive cars. His death in 1991 produced a wide outpouring of grief among employees worldwide. Honda was not only a highly self-motivated individual, but he also inspired his entire organization.

3.3 AN INTERNATIONAL PERSPECTIVE

> An international perspective opens up opportunities. Do not be a prisoner of your own national culture.

Our world is interconnected through ease and low cost of travel, the speed of Internet communications, and the instantaneous diffusion of information. Opportunities in one's own backyard are impacted by global expansion. In the field of entrepreneurship, an individual's prospects will be magnified through an international outlook that values the insights of other cultures and seeks to understand and work with those of other backgrounds. Farrell states:

> Entrepreneurship in my philosophy is one of the most generic things in the world. The actual practice of entrepreneurship is almost culture-free. Different cultures have different rates of entrepreneurship, because there are some differences in terms of how people perceive it as a career, but once you get into it, an entrepreneur in Hong Kong and entrepreneurs in Sao Paulo, Brazil—they basically have to do the same thing to succeed. It's not like there is a big difference. In that sense it is a bit like a worldwide technology.[20]

The international perspective Farrell injects into his books is far greater than that possessed by the average American.

> How did Farrell develop this international outlook?
>
> When I was just out of undergraduate school I went into the American Peace Corps. They sent me to the Middle East, and this was a good two-year experience. That opened my eyes to the world. My early jobs had an international dimension. At American Express I was the Marketing VP of an international subsidiary. Then I worked with Kepner-Tregoe, which

> had offices in about twenty different countries, eventually becoming the President and Chief Operating Officer. The value of this international perspective was reinforced when I became involved in marketing the Tom Peters Excellence seminars around the world. All of Peters' examples were U.S. companies. That in itself was a tough sell in Japan and in Germany. They would say, "How does the culture here work with that?"[21]

The lack of an international perspective limits an entrepreneur's range of opportunity. For example, despite Peters' enormous success and guru status, Farrell notes that he is "one of those Americans who is such a prisoner of American culture. He truly did not understand much outside of the U.S. When I was working with him, I brought him to London to give a big speech, and he was practically booed off the stage!"[22]

Farrell, on the other hand, has intentionally adopted an international perspective:

> For this reason, I have attempted to make my message international in scope, application, and presentation. I decided that in addition to studying the earlier history of companies, I would also make sure that my examples were roughly one-third European, one-third American, and one-third Asian, with a smattering of South American examples thrown in.[23]

This is important for a U.S. audience. Farrell remarks, "People in North America, particularly in the U.S., know very little of what is outside the U.S. It really drives me nuts!"[24]

<u>Jannie Tay—The Chinese "Mamacita"</u>

Jannie Tay founded "The Hour Glass Company," a watch and jewelry retailer, in Singapore. Over twenty years, the company has grown to three hundred employees, $300 million in annual revenue, and fifteen outlets throughout Southeast Asia and Australia. The company is known for high quality products and excellent service. According to Farrell, the company's growth has been "driven by Jannie Tay's greatest personal asset: her amazing instincts for inspiring her people." Tay deflects this praise by stressing that the top asset of her company is her employees. She calls herself a "Chinese Mamatica." She elaborates: "The key to everything we do is treating ourselves like a family. They [the employees] become your family, and you have unconditional love for each other—you forgive and forget, and you share the good and the bad."

Has an international perspective benefited Farrell's own consulting activities? He responds, "We have done more than fifty percent of our business outside of the U.S. We currently have twenty international affiliates, and we have recently begun new relationships in India and China. We have enjoyed a long-standing presence in other markets. We have been in South Africa for twelve years now, Brazil for fourteen years, and Singapore and the UK for twenty years."[25]

However, not all entrepreneurs envisage international opportunities. People from one corner of the globe may be superficially familiar with another group of people and yet remain entirely ignorant of the other culture and, in fact, may display disdain for it. As Farrell points out: "Those people who are prisoners of the American culture better wake up, because between India and China you have forty percent of the world's population. So for the twenty-first century, if you are just thinking about American examples and American products for American consumers, then this will be the road to oblivion."[26]

<u>Farrell's Key Points</u>

3.1 - The life cycle of all organizations involves a progression from "entrepreneurial practices" to "managerial practices": start up, high growth, decline, and survival. Maintaining entrepreneurial practices sustains growth and counteracts decline.

3.2 - "The entrepreneurial basics" provide a framework for successful entrepreneurial pursuits: a sense of mission, a customer/product vision, high-speed innovation, and self-inspired behavior.

3.3 - An international perspective opens up opportunities. Do not be a prisoner of your own national culture.

ENDNOTES

[1] Farrell Interview.
[2] Farrell Interview.
[3] Farrell Interview.
[4] Farrell, Getting Entrepreneurial!, 8.
[5] Farrell, Getting Entrepreneurial!, 43.
[6] Farrell, Getting Entrepreneurial!, 12-3.
[7] Farrell, Getting Entrepreneurial!, 39.
[8] Farrell Interview.
[9] Farrell, Getting Entrepreneurial!, 59.
[10] Farrell, Getting Entrepreneurial!, 71.
[11] Farrell, Getting Entrepreneurial!, 75.
[12] Farrell, Getting Entrepreneurial!, 13.
[13] Farrell, Getting Entrepreneurial!, 13.
[14] Farrell, Getting Entrepreneurial!, 108.
[15] Farrell, Getting Entrepreneurial!, 125.
[16] Farrell, Getting Entrepreneurial!, 122.
[17] Farrell, Getting Entrepreneurial!, 14.
[18] Farrell, Getting Entrepreneurial!, 150-1.
[19] Farrell, Getting Entrepreneurial!, 176.
[20] Farrell Interview.
[21] Farrell Interview.
[22] Farrell Interview.
[23] Farrell Interview.
[24] Farrell Interview.
[25] Farrell Interview.
[26] Farrell Interview.