**ENTREPRENEURIAL EXPERT**

# RITA GUNTHER MCGRATH:

# THE ENTREPRENEURIAL MINDSET AND DISCOVER-DRIVEN PLANNING

**By**

**Richard J. Goossen**

*A mindset can be developed, enhanced, and improved. A mind, on the other hand, implies that you are either born with it or you are not. …[Y]ou may not become the next Jeff Bezos [founder of Amazon.com], but you can always improve.*

**Rita Gunther McGrath**
**Interview with Rick Goossen**

# Introduction to Rita Gunther McGrath

| KEY DATA: | |
|---|---|
| **Name** | Rita Gunther McGrath |
| **Title** | Associate Professor |
| **Affiliation** | Columbia University, New York, NY |
| **Education** | BA, Barnard, 1981; MPA, Columbia, 1982; PhD, Univ. of Pennsylvania, 1993 |
| **Experience** | Teaches MBA and Executive MBA courses in strategy and the innovation process at Columbia;<br>Teaches regularly in Columbia's top-rated executive education programs;<br>Faculty Director for Leading Strategic Growth & Change, Creating Breakthrough Strategy, and Executing Breakthrough Strategy;<br>Active consultant and instructor for corporate executive education programs;<br>Has been a corporate IT director, and has founded two start-ups. |
| **Notable Publications** | *The Entrepreneurial Mindset* (1999);<br>*Market Busters* (2005) |
| **Website(s)** | www.marketbusting.com;<br>http://www0.gsb.columbia.edu/index.html |

# Biographical Highlights

- McGrath is the co-author of *The Entrepreneurial Mindset*, a leading entrepreneurship text.

- She is Director of the Strategic Management Society, the premier professional organization for strategists.

- She has won numerous writing awards: McKinsey Best Paper Award; Strategic Management Society Award, 2001; Maurice Holland Award; Best Paper Published in Research Technology Management, 2000; Industrial Research Institute Award; Best Paper, Academy of Management Review, 1999; Entrepreneurship Theory and Practice Award for Best Conceptual Paper, 1992 & 1996; and Best Paper, European Foundation for Entrepreneurship Research, 1995.

- She has worked with companies such as 3M, Nokia, DuPont, Deutsche Telekom, The Japan Bank for International Cooperation, and Swiss Reinsurance, Inc.

# 5.1 Developing an entrepreneurial mindset

Individuals and corporations need to adopt ways of thinking about business that capture the benefits of uncertainty. Such is the entrepreneurial mindset of habitual entrepreneurs.

By intertwining an entrepreneurial mindset (discussed in this section) with discovery-driven planning (covered in the following section), Rita McGrath offers a practical method of thriving on uncertainty in entrepreneurship. Her two co-authored books, *The Entrepreneurial Mindset* and *MarketBusters*, offer examples of individual entrepreneurs and managers who pursue a clear plan of action through intrapreneurship (entrepreneurship within an existing, often large and hierarchical, organization) in corporations.1 Many entrepreneurial writers highlight the dynamics of the entrepreneurial environment, but McGrath offers a roadmap out of the maze.

McGrath defines an entrepreneurial mindset as a method of perceiving business opportunities in a light that “captures the benefits of uncertainty.”2 The entrepreneurial mindset is part of the constitution of “habitual entrepreneurs,” those individuals who are able to carefully assess and benefit from opportunities in the midst of fluctuating circumstances.3

Why use the term “mindset” instead of “mind?” McGrath argues that a “mind” implies intelligence you either are or are not born with; a “mindset,” on the other hand, can be developed, enhanced and improved.4 Although not every person will become the founder of the next Amazon.com, improving one’s business mindset is always possible.5 In her courses at Columbia Business School, McGrath stresses, “*Mindset* implies an attitude or perspective that is always looking for opportunities.” This way of thinking extends beyond the basic ability to merely “exploit today’s business.”6

McGrath mentions five defining characteristics of the entrepreneurial mindset. First, habitual entrepreneurs "passionately seek opportunities"7—they look for the constantly developing niches and needs that result from a fluid environment. Second, habitual entrepreneurs exercise "enormous discipline" in their pursuit of those opportunities.8 Discipline involves maintaining a register of opportunities, assessing them, and determining which are worthy of pursuit. Third, habitual entrepreneurs refuse to invest in questionable or mediocre opportunities; they do not run after every idea that presents itself.9 They generally stick with their area of expertise, which allows them to accurately assess the nature of an opportunity and reduce the risk to themselves.

Fourth, they "focus on execution—specifically, adaptive execution."10 Habitual entrepreneurs know how to get the job done, but they also know how to adapt along the way. They sort out the details for a process *after* it is underway, avoiding the fruitless inertia of too much pre-production analysis. Fifth, habitual entrepreneurs "engage the energies of everyone in their domain."11 They are not solo operators; instead, they bring in various team members or organizations to fully exploit an opportunity.

With these five characteristics of an entrepreneurial mindset, the next step is to determine which opportunities should or should not be pursued. For this process, McGrath uses the concept of an entrepreneurial frame, which is a "specific, measurable challenge to enhance the value of your piece of the business."12 There are two components of the entrepreneurial frame: attaining the minimum amount of additional profits needed to make it worthwhile, and achieving the required return on assets.13 One must analyze the value of his or her existing business: if a new venture is not as profitable, then there is no point in proceeding. If, however, the venture still looks promising, the entrepreneur must then format an Opportunity Register to organize and assess his or her ideas. The key aspects of an initial review of an idea includes a summary analysis of the business concepts, related trends, key data, obstacles and barriers, competition, and timing.

In classic entrepreneurship theory, uncertainty is an essential component of economic ebb and flow, allowing new entities to displace old ones that do not respond to the new environment. Various sources of uncertainty include deregulation, globalization, and technological change. As well, the necessary skills for high-growth entrepreneurs, who routinely thrive in the midst of unpredictable circumstances, dovetail with the skills of managers in larger companies who must adapt to today's ever-changing world. In the year 2000, McGrath proposed that it was the right time for the two traditionally distinct disciplines of entrepreneurship and strategic management to cross-fertilize each other.15 The result: future strategists in larger companies who act with an entrepreneurial mindset will be able to thrive in uncertain conditions.

In our 2005 interview, McGrath affirmed that this trend has continued, although the terminology now promotes "growth strategy" and "strategies for organizational development." Also, McGrath noted that large companies are increasingly focused on "where the next act is coming from."16 In other words, what upcoming innovation will take the company forward? McGrath mentioned the example of General Electric, where the company culture promotes "innovation, swinging for the bleachers, and big bets."17 Capitalizing on such opportunities demands an entrepreneurial mindset.

## 5.2 Discovery-driven planning

A person with an entrepreneurial mindset pursues an opportunity through "discovery-driven planning," which involves framing, competitive market reality specification, specification of deliverables, assumptions testing, managing to milestones, and parsimony.

Let's assume an individual has an entrepreneurial mindset, and has established an opportunity register. According to McGrath, the next step is asking, "How do you plan and manage an initiative whose direction and outcomes are not yet known?"18 McGrath's response involves "discovery-driven planning," an approach that encourages an entrepreneur's inclination to act, and teaches subsequent re-adjustment through careful attention to a strategy's evolution. Since one cannot determine the strategy in advance (and an attempt to do so may actually be counterproductive), this approach places greater emphasis on a process of reflection and analysis. Discovery-driven planning is much different from conventional planning, which focuses on trying to envisage the end result and then securing corporate allocation of resources to achieve those relatively unsubstantiated goals. McGrath teaches that, in the context of uncertainty, conventional planning is suspect at best, and dangerous at worst.19

In contrast, McGrath establishes six disciplines of discovery-driven planning. While conventional planning is rooted in past experience and precedent, discovery-driven planning focuses on entirely new patterns. With that in mind, the six disciplines of the discovery-driven planning framework balance traditional attention to costs and cash flow with the cutting-edge input of creativity and new ideas. McGrath's intended outcome, then, is "real options reasoning," which seeks to minimize initial costs until a venture actually demonstrates returns.20

## The six disciplines are as follows:

- Framing: According to McGrath, any new initiative that does not have the potential for "substantial, quantifiable impact" is not worth pursuing.21 The goal of framing is to clearly specify the "unit of business," which McGrath defines as "the product or service that actually triggers a revenue-generating event."22 This unit of business, which varies from a billable hour for lawyers to a policy for life-insurance agents, defines the business model.
- Competitive Market Reality Specification: One must conduct the planning process within the bounds of a realistic appraisal of the particular market. A company should bear in mind the range of competitive challenges, namely the effect of new companies, or the threat of existing companies that will reallocate resources. Though in-depth knowledge is not necessary at this stage, the entrepreneur has to grasp a project's "benchmark parameters" for success in a competitive environment, as well as the market range required to sustain a product's profitability.23 This discipline may quickly eliminate unrealistic ideas.
- Specification of Deliverables: An entrepreneur must translate his or her broad strategy into daily operating activities in order for the idea to become a reality. Deliverables are defined in relation to the frame of the business model in the context of a discovery-driven plan. McGrath points out four reasons why deliverables should be specified. First, the process converts a lofty strategy to the specific production goals and abilities of team members. Second, the specific deliverables provide a focus for competence creation: for example, collecting a certain percentage of funds from delinquent customers may require

telephone skills, a certain number of calls per staff, and a minimum number of staff. Third, this step exposes any of the planners' fallacious assumptions by confronting their ideas with operational reality—is the venture truly feasible? Specifically, the salespeople can quickly judge if customers are likely to buy the new product, and at what price, regardless of what management expects to happen. Fourth, the more closely deliverables are intertwined with the actual needs of customers, the more difficult it will be for a competitor to break that bond.24

- Assumptions Testing: In a conventional plan, people test the end result; in discovery-driven planning, however, testing assumptions is a continual process. A list of assumptions accompanies each deliverable and its operating requirements. As the execution procedure progresses, owners test these assumptions against reality with the objective of gaining as much actual knowledge as possible without incurring large expenses.25
- Managing to Milestones: McGrath defines milestones as "critical, identifiable points in time at which key assumptions are tested."26 This discipline is, of course, related to testing assumptions at frequent junctures in the discovery-driven process. The core concept is that an individual plans as far ahead as current information will sensibly allow; then he or she stops and reassesses the assumptions, after which he or she manages to the next milestone.27 Throughout the process, the individual maps and re-charts the major milestones that are likely to occur. For a manufacturing procedure, such milestones typically include concept test, model development, focus group test, prototype, market test, pilot plant, and full-scale plant initial run.28 One challenge in this process is to stage a sequence of events that "minimize cash burn and corporate expectations" yet

engage the entrepreneur in critical research.29 The advantage of the discovery-driven approach is that company directors are changing strategies to conform to continual feedback, as opposed to ascribing to expectations established prior to the start of the program, when knowledge was merely speculative.

- Parsimony: The last discipline proposed by McGrath is parsimony—creatively finding ways to minimize the costs of the planning process. Faulty assumptions, whether with regard to production costs or acceptable consumer price levels, can be very expensive. Again, McGrath encourages companies to commit minimal resources until assumptions have been tested. She advises people to “spend their imagination” before they reach for their wallets.30

# 5.3 Entrepreneurial leadership

> Entrepreneurial leaders, whether individuals or organizations, create an entrepreneurial culture by developing climate-setting practices, orchestrating the entrepreneurial process, and championing new initiatives.

An entrepreneurial leader succeeds when the discovery-driven process occurs routinely, as part of an organization's culture, rather than as a deliberate act of the leader. McGrath presents three broad categories of leadership practices that will create this entrepreneurial culture.

The starting point is for the entrepreneurial leader to model climate-setting practices. The CEO needs to underscore the value of finding new opportunities; growth must become everyone's responsibility, and entrepreneurial initiatives must be integral to the identity of the company. The company should allocate substantial attention, resources, and talent to entrepreneurial initiatives.

Second, the entrepreneurial leader must orchestrate the process. The leader has to survey various avenues for "entrepreneurial development" through a framework that determines whether or not a business initiative is desirable.31 This concept ties in with "real options reasoning" in which you make investments with a limited downside to learn whether further investment is warranted.32

As well, the entrepreneurial leader must actively champion initiatives. Along those lines, there are four distinct activities he or she can engage in: identify insights; convert each insight into an actionable business description; build pervasive organizational resolve; and discharge entrepreneurial leadership. The last initiative is comprised of obligations of framing, absorbing uncertainty, evaluating limiting conditions, clearing a path, and underwriting the highest-potential opportunity.

# 5.4 Strategic growth through marketbusters

Forty strategic moves, grouped under five central strategies, can drive growth for the purpose of creating "marketbusters" (significant changes in revenue position).

McGrath's approach to strategic growth belongs in the context of this topic's development over the past several decades. Strategic thinking changed in 1980, when Michael Porter published the landmark book *Competitive Strategy: Techniques for Analyzing Industries and Competitors*.33 Porter proposed that industry competition is a composite of five forces: rivalry among competing firms, the potential entry of new competitors, the possible development of substitute products, the bargaining power of suppliers, and the bargaining power of consumers.

According to McGrath, Porter's ideas had two negative byproducts. First, strategic thinking began to focus on industry first, and only later on the individual company.34 Second, because of Porter's emphasis on stable industry forces, which he himself acknowledges in the preface of his book, McGrath notes that many companies began to think in a more static manner than today's comparables would.35

While Porter's book spawned certain trends in strategic management thinking, McGrath also mentions three other significant shifts in perception.36 To begin with, she states, "[S]trategy today places more emphasis on dynamism, fast reaction, …'hardball competition,' 'hyper competition,' and 'radical innovation.'"37 These terms were not in the strategy lexicon 25 years ago. Moreover, while few mid-level managers from past decades faced the brutality of free market competition, recent factors such as globalization, information technology development, and shifting communication patterns have forced companies to deal with such issues on an operating level. Finally, as competition boundaries have weakened, cycles of stable competitive forces are getting shorter and rivalries have intensified. Companies now seek to develop dynamic, fast-moving strategies.

In light of this competitive environment, an entrepreneurial mindset and entrepreneurial leadership are the foundations upon which a company can frame an opportunity, use the discovery-driven process, and turn its objective into reality.

McGrath and co-author Ian MacMillan wrote a book called *MarketBusters: 40 Strategic Moves That Drive Exceptional Business Growth*, which maps out promising ways to pursue an opportunity.38 The focus of their work is on strategic growth through "marketbusting" tactics—moves that identify and track opportunities for growth.

Their motivation for writing this follow-up book to *The Entrepreneurial Mindset* (2000) grew from two recent changes in the entrepreneurial field. First, the Internet is playing an ever-increasing role in creating opportunities. *MarketBusters* addresses this trend with a number of Internet-related examples.

Second, the job of the manager—the person attempting to adopt an entrepreneurial mindset—has become more difficult. McGrath notes that the average CEO's number of years in office has decreased significantly.39 Further, middle managers are experiencing an expansion of duties that defy "any reasonable hope of personal feasibility," which means "companies are coming under much more pressure around growth than they were in 2000."40 While the ideas in her first book remain valid, she discerns that today's environment has created new and unique dynamics in the business world.41

*MarketBusters* distills McGrath and MacMillan's three years of research into a set of forty moves, clustered around five core strategies. Each of these actions is designed to create a "marketbuster," which McGrath and MacMillan define as a 2 percent gain or loss in market share (as a result of its moves or those of another player); annual growth of 10 percent or more in sales, over at least two years, due to a new entry by an innovator; or, annual sales or shipment growth that is 5 percent greater than an incumbent's growth in the underlying market.42

The first of the five core strategies is to examine your customers' total experience and, ultimately, transform it. The first two parts of the analysis—the customer and the customer's experience—are self-explanatory. But how does the "consumption chain analysis" work?

The consumption chain represents the set of activities customers engage in to meet their needs. This varies significantly, depending if the product is a hamburger or an automobile. Restaurants can transform their customers' experience by installing a drive-through window; on a different scale, car manufacturers can transform their customers' experience by selling vehicles online instead of at a car lot.

You can also transform your products and services by identifying chances to add or eliminate features, or by breaking apart offerings to target more specific customer categories. To determine a company's product positioning in relation to that of its competitors, McGrath proposes an attribute map—a tool that attempts to predict the consequences of marketbusting moves. In other words, do the moves please or displease key customer segments, and why?

While the first two strategies focus on the customer, the third strategy focuses on investors. The approach: redefine metrics that drive products by radically changing important variables that reflect the standards of competition in your industry. McGrath states, "The goal is to create advantages in your markets, but also to have a positive effect on your firm's stock market capitalization."43

This concept requires the use of Key Metrics, a tool that illuminates the amount of "units of business" an entrepreneur can sell, and the potential profits from those sales.44 (As explained earlier, a unit of business can be anything from an insurance policy to a meal; in essence, it is the type of service or product your company provides.) Analyzing key metrics with an entrepreneurial mindset allows you to redefine the main drivers of profit.

McGrath and MacMillan's fourth strategy is to place the lens on industry and adopt a method of exploiting shifts. They present an Industry Shifts Framework based on four patterns of industry change: industry swings through cycles of surplus and scarcity; a shift in an industry constraint or barrier that changes power relations; natural industry evolution; and shifts in patterns of costs or bottlenecks that cause value chain reordering.45 A company will need to recognize these shifts or changes in the competitive environment and then adjust its strategy accordingly.

The four previous strategies dealt with existing industry dynamics. The fifth core strategy, however, focuses the lens on emerging opportunities and adopts the strategy of entering new markets. The affiliated tool is the Tectonic Triggers Table, named based on its similarity to shifting tectonic plates on the earth's surface.46

McGrath identifies a list of tectonic triggers: an invention that changes what is technologically feasible or affordable (for example, an airplane or elevator); a shift in social norms that alters behavior (i.e. the ban on smoking in restaurants); a change in some aspect of nature (i.e. diseases such as AIDS or SARS, or environmental conditions such as global warming); institutional and regulatory change (i.e. deregulation of the airline industry); and demographic changes (i.e. baby boomer bulge).47

Implementing the five “marketbuster” strategies requires a combination of rigorous analysis and creative planning. McGrath and MacMillan map out strategic moves for high growth and provide a framework for developing an entrepreneurial mindset, but their advice is only the beginning. McGrath reflects that, for most entrepreneurs and managers, success depends on continually using decent tools, developing sound analytical techniques, and demonstrating a healthy degree of discipline.

In McGrath’s experience, the majority of strategy formulation involves challenging work. Entrepreneurs must mentally follow through with implementing their ideas, and they must try to anticipate likely obstacles. Then the planning process involves “ensuring alignment of goals and putting work streams in place.”48 In other words, while a framework for planning is important, there is also much more. To complete the process, one must make room for a creative spark to emerge.

What are the tealeaves telling us? McGrath explains that the ability to analyze situations, notice patterns, and make discoveries is the creative foundation for strategy development.49 In short, balancing analysis with innovative thinking is critical for executing strategic moves.

## McGrath's key points

5.1 – Individuals and corporations need to adopt ways of thinking about business that capture the benefits of uncertainty. Such is the entrepreneurial mindset of habitual entrepreneurs.

5.2 – A person with an entrepreneurial mindset pursues an opportunity through "discovery-driven planning," which involves framing, competitive market reality specification, specification of deliverables, assumptions testing, managing to milestones, and parsimony.

5.3 – Entrepreneurial leaders, whether individuals or organizations, create an entrepreneurial culture by developing climate-setting practices, orchestrating the entrepreneurial process, and championing new initiatives.

5.4 – Forty strategic moves, grouped under five central strategies, can drive growth for the purpose of creating "marketbusters" (significant changes in revenue position).