HIGH TECH

Not A MATTER OF SIZE

By Dr. Jay Mendell and Henry Sarkis

Many people believe that Fort Lauderdale/ Broward is a leading environment for small entrepreneurial companies. Two management experts, one a corporate officer, the other a professor, examine the relationship between size and innovativeness.

Size used to be an asset. Now it is frequently a liability; especially in companies that need to innovate.

If a competitor is growing and threatens to push you out of your best market, you may have to grow in self-defense. You have no choice. If, only by growing, you can achieve economies of scale in manufacturing and increase your profit margin, growth appears to be a smart strategic move.

On the other hand, staying small can have its advantages. In *The Next Economy,* Paul Hawken pointed out that small retailers (his example is a 700 sq. ft. grocery in a ghetto) can shop intensely among their suppliers and stock up with bargains, such as odd-lot merchandise. Large retailers cannot find sufficient bargains to fully stock their shelves: they may envy the innovativeness of their small competitor, but they can't imitate it.

When is size a liability? Large companies cannot easily decide to kill their "perfectly good" old products and replace them with improved products that the customers demand, or scrap "perfectly good" production equipment because something better has come available.

In these days of shortened product life cycles and continual technological innovation, companies have to be nimble. Elephants can't compete with antelopes in a 50-yard dash. Though it may be true that large companies can afford to scrap the old and buy the new, a few voices crying for innovation are likely to be drowned out in a large company.

And here's another argument against bigness: in a reaction against the mass marketing and mass production of the past, markets are rapidly becoming nar*rower* and individualized. The new economy has spawned hundreds of markets where one market existed in the past. It is easier for a hundred small companies looking for niches to serve these markets than for one big company to listen to a hundred categories of consumers and respond to each class with a specially tailored product. A big company finds it easier to market one product and hope that it satisfies one hundred markets (which, of course, it won't).

Further, small startup companies can target their capital investment to newly emerging markets, while big companies are often stuck with big investments targeted to a formerly existing mass market.

There are problems of growth that are often mistaken for problems of aging. As a company grows gradually; year by year, decision making often slows down, especially where decisions to change are required. Employees lose sight of the company's original mission and work less hard because they believe extra effort will not be noticed and appreciated.

There are techniques to give big companies a small company feeling. One such technique is decentralization.

Separate business units (small teams) are allowed to design, manufacture, and market products without continual scrutiny from top management. Business units are kept small to give employees the feeling they are part of a *startup* company.

How do you control these small teams? You can invest stage by stage, withholding major funding until they have demonstrated at least a small success in selling their product to the public.

What should you do if you wish to build intrapreneurship (internal entrepreneurship) into your company?

First, you can encourage intrapreneurs to emerge. Gould, Inc., has a program in Rolling Meadows, Illinois, that encourages employees to propose new ventures to the company. If the idea has merit, Gould will lend money and provide technical and marketing support in exchange for equity in the new business. If all goes well, after five years Gould will buy the venture; but, if the venture fails, the employees may be taken back into Gould. Tektronix, a manufacturer of electronic test equipment, sold the rights to a flat-panel computer display to a group of its own employees, the team that developed the display. Tektronix provided some cash, helped in obtaining credit, provided access to equipment and facilities, all this in exchange for a stake in the spin-off.

In the rapidly changing economy, companies often discover that they are deficient in specific skills and technologies; and, quite naturally; they consider the possibility of obtaining the "missing ingredients" that they need by merger or acquisition. But a new trend is developing: companies are leery of acquisitions and mergers that will entangle them with unfamiliar corporate cultures, management information systems, geographic territories, and product lines. So the trend is to collaborative ventures, in which skills and technologies are shared as needed to make up for deficiencies, but the companies remain independent. Examples are Intercontinental Motels Corporation which is venturing with Comsat General Corporation to offer intercontinental teleconferencing services; Gulf Oil and ITT who are venturing in specialty insurance underwriting; and RCA Corporation and Columbia Pictures whose joint venture will distribute videocassettes.

When the accounting firm, Coopers and Lybrand compared innovation and job creation in large and small enterprises, here is what they found: small companies generate twenty-four times the number of innovations per dollar spent on research and development; and since 1965 almost all new jobs have been created by small firms.

Clearly, the future of the U.S. economy depends on small companies growing big-and big companies acting small.

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