Title:Wanted: a practical visionary

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Full Text:

Vision and management skills don't always come together in one person. Here's what helps today's entrepreneurs succeed.

Businesspeople need a combination of leadership and management skills to transform vision into reality. Today, that blending of practical skills and insightful leadership is more imperative than ever before, as businesses of all sizes are called upon to hone their strategies in the face of cutthroat global competition and international opportunities.

Established organizations wrestle with balancing leadership and management. What about entrepreneurs? Owners of some of the world's fastest-growing entrepreneurial businesses gathered in November in Palm Springs, Calif., at the 11th annual Ernst & Young Entrepreneur of the Year Institute International Conference. The conference was nationally cosponsored by USA Today, the NASDAQ Stock Market and the Center for Entrepreneurial Leadership Inc. at the Ewing Marion Kauffman Foundation. The American Management Association was one of several industry-award sponsors.

The conference was the culmination of 46 local competitions presenting more than 440 regional Entrepreneur of the Year awards. These companies generated more than 88,000 new jobs in the past year, had average revenues of $121 million and grew by en average of 42 percent. At the conference, the 1997 National Entrepreneur of the Year Award--the highest prize--was awarded to Andy Taylor, CEO of Enterprise Rent-a-Car, and his father, founder and chairman Jack Taylor. Past national winners have included Jim McCann of 1-800-FLOWERS, Michael Dell of Dell Computer Corp., Sheryl Leach of the Lyons Group (creators of the Barneyshow) and Steve Case of America Online.

This conference drew 1,900 attendees from the United States and abroad. A sampling of participants pondered the leadership-management conundrum.

"Leadership and management skills aren't mutually exclusive," said Dick Roney, founder of Mega Systems and Chemicals in Chandler, Ariz. Good leaders have a mix of both abilities. But as Henry Yuen, president and CEO of Gemstar, said, "Leaders and managers usually aren't the same person. A leader is an optimist beyond caution."

Yuen, winner of the 1996 National Entrepreneur of the Year award, went on to say that a leader is "genetically inclined" to be optimistic. "For a manager, you want the opposite," he continued. "A company needs a complement of these two characteristics." At Gemstar, Yuen plans the next product while CFO Elsie Leong develops the practical strategies to help his dreams succeed.

Some attendees compared entrepreneurs with the CEOs of larger, more established organizations. "The most important skill for entrepreneurs is creativity--innovative thinking," said Brien Biondi, executive director of the Young Entrepreneurs' Organization (YEO). "CEOs generally are more well-balanced, but entrepreneurs are more creative."

Biondi added that many entrepreneurs lack general management skills: "The greatest difficulty, once a business is up and running, is how to manage it." To illustrate his point, Biondi noted that one YEO member is a 28-year-old entrepreneur who heads an $11 million company that employs 70. "He's struggling because of employee management issues," Biondi said.

The Staffing Challenge

In the early stages of a business startup, the company founder maybe more concerned with maintaining a positive cash flow than with such issues as employee motivation. Indeed, entrepreneur conference attendees agreed overwhelmingly that the key challenge facing business generators today is finding, motivating and retaining staff.

In an on-the-spot electronic survey at the conference, fewer than half of the attendees reported that their employees came to work energized. This contrasted markedly with their own enthusiasm for the business. Marjorie Blanchard, cofounder and president of Blanchard Training and Development, Escondido, Calif., told attendees that as entrepreneurs, it is easier for them to stay motivated because they see the entire picture. From their vantage points, actions and results are better correlated. But, she noted, it is difficult for employees to see the direct correlation between business success and their own well-being.

Gemstar's Yuen noted that, as his company grew beyond its founders to encompass a workforce of 300, finding the right composite of people became increasingly challenging. Yuen said he looked for intelligent people at first, but he soon learned that they weren't always hardworking. Then he looked for intelligent, hardworking people. As he gained more management experience, the list of desirable attributes grew. Today, Yuen's list includes intelligent, hardworking, trustworthy, harmonious and flexible people--a set of characteristics he admitted is "fairly difficult to find."

The challenge of finding effective workers extends to overseas companies as well. Frederick Dawans of D. B. Associates, S.A., a Brussels-based facilities management firm, frankly admitted that "staffing is a problem." For most employees, Dawans observed, "money isn't most important. The first thing is job satisfaction," a factor, he noted, that "helps younger, often smaller firms attract key talent." He added that finding qualified engineers and architects for his business is a constant challenge.

The search for talent is never-ending among entrepreneurs, just as for their larger counterparts. According to John Valhen, founder of United Furniture Warehouse in Vancouver, British Columbia, Canada, "Teamwork, and finding [the right] mix of skills," is crucial.

In addition, the power of stock ownership as a motivation tool cannot be overlooked. Some business owners at the conference said that publicly traded companies have an advantage because they can offer stock options as well as a defined career track.

A 1997 survey by the Ewing Marion Kauffman Foundation and Ernst& Young found that 42 percent of companies in the study offered employees stock ownership. Yet, some 58 percent of those companies offered shares only to senior management, and 88 percent of them offered less than 50 percent of their stock. Those enterprises that did offer shares in the business saw significant gains: Their sales growth was 57 percent higher and their gross profit margins 38 percent higher than those of companies that did not provide employee stock options. Whether this is a direct result of employee motivation is open to debate.

Money aside, Dan Lamberti, founder of Carey's General Stores Inc., Ankeny, Iowa, advised companies to "maintain enthusiasm from the top down and [generate] ideas from the bottom up." He said that he encourages employees to share ideas and is willing to test them, "even if we know they don't work [from the past]. The timing might have been wrong." Lamberti said he has learned that ideas which failed five years ago may work today, simply because the business climate--including consumers--has changed. Not trying out those ideas kills enthusiasm, he asserted.

In the early stages of business formation, entrepreneurs themselves generally lack knowledge, not skills, Gemstar's Yuen noted. His observation seemed to mirror the experience of conference attendees. According to the on-site survey, for instance, 59 percent of the attendees are engaged in international business and expect that segment to expand. But at the same time, they said their key challenges internationally are to better understand foreign markets and find foreign partners. Survey respondents believed that with time, study and a good staff, they could resolve their lack of knowledge.

Capital Concerns

Regardless of leadership or managerial talents, the ability to attract needed capital is an overriding factor in the success of entrepreneurial businesses, financial experts counseled attendees. Optimal capitalization is a moving target throughout the growth of a business, John Romney, a partner at Ernst & Young, told attendees. Getting it right, he said, is a balance of one's appetite for risk, control issues and ownership goals.

Venture capital, initial public offerings (IPOs) and a host of other financing options are available for a wide variety of circumstances. In 1996, $71.7 billion was raised by IPOs in the United States. Romney advised his audience that when choosing financing options, they should carefully consider whether or not the partner brings value, as well as money, to the firm and whether this type of financing will help or hinder further rounds of financing.

Currently, the availability of venture capital is on the upswing. About $10 billion in venture capital was raised in 1996, of which about 27 percent came from pension funds, 24 percent from corporate pension funds, 17 percent from financial institutions, 12 percent from endowments and foundations, 8 percent from individual families and 12 percent from other sources. Tom Roberts, general partner at Summit Partners, a venture capital firm in Boston, told his listeners that the average amount of venture capital raised by individual firms during their lifetimes grew from $7 million in 1985 to about $12 million today. In 1995, 46 percent of that capital went to information-technology firms, 24 percent to healthcare/life-science firms and 30 percent to other industries.

Venture capital firms expect to be active in corporate management. As Roberts noted, "This is a partnership." Companies work with venture capitalists not only for the money, but also for help in building executive teams and boards of directors. A venture capital firm should be selected based upon financial resources, personal chemistry, investment expertise in your industry, commitment to your opportunities, key contacts and energy. "Check their references vigorously," Roberts cautioned.

Regarding IPOs, Joe Low, managing director of the investment banking division at Donaldson, Lufkin & Jenrette, New York, said, "IPOs are priced to go up, typically 10 to 20 percent, right after the IPO." The average IPO raises $90.2 million. Typically, companies should consider IPOs only if they have an experienced management team, solid fundamentals, momentum, strong revenue-to-earnings growth and a solid balance sheet. The disadvantages of going public include a fixation on short-term performance, a need to share success, limits on management decision making and some loss of confidentiality.

Clearly, entrepreneurial business success depends upon a combination of both visionary and very practical factors, along with the ever-important bit of good luck. The right company will have a blend of the hard-nosed and the visionary in its founder,-its workforce and its culture. After all, isn't this the description of any successful organization?

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The experts told conference attendees that many financing options are available, all with different inherent risks and benefits. Before committing to any one capitalization method, they suggested that an entrepreneur investigate a venture capital firm thoroughly and consider several points:

\* What the investor brings to the company other than money;

\* The degree of control the owner is willing to relinquish;

\* How this financing method will affect future financing plans; and

\* The personal chemistry between the players.

Another option is mezzanine financing, also known as junior, unsecured capital, which generally supplements what banks are willing to provide. This type of financing was developed for buyouts and generally is used when banks can't provide sufficient capital, when funds are needed quickly (verbal approvals are possible within a few days), when a long-term investment (four to 10 years) is needed or when the borrower may need an institutional investor for credibility and skills.

According to John Chapman. Triumph Capital Groups, a specialist in mezzanine financing, "This is not an early-stage investment and is not an alternative to venture capital." After four to 10 years, the investor will want to get out of the investment, usually by selling its equity in the firm. "We act as the CFO for External Affairs," said Chapman, adding that this type of financing helps a company identify investors and structure investments and IPOs.

Bank loans, another financing choice, are changing, said Ed Fariss, president of Nation's Banks. Banks are supplying loans with broader ranges of options. This trend and that of industry consolidation are making asset-based bank loans very competitive, he added. "Loans are more like, soda, to be analyzed on cash flow generalizations versus collateral value."

Gail Dutton is a writer based in Irvine, Calif. and a frequent contributor to Management Review.

Abstract:

The 1997 Ernst and Young Entrepreneur of the Year Institute International Conference was held in Palm Springs, CA, in Nov 1997. There were over 440 regional Entrepreneur of the Year awards presented. There were 1,900 attendees who discussed the issue of leadership versus management for entrepreneurial ventures. Successful entrepreneurial businesses require visionary and practical skills as well as good luck.

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