Theory E²: Working with Entrepreneurs in Closely-Held Enterprises

IX: Interplay between Entrepreneurship and Maturity, Tasks, Problems and Environment

William Bergquist

We live in a world that yields few easy answers. Each setting in which entrepreneurship is exhibited differs from every other setting, and the relationship established between entrepreneurial leadership styles and context is always unique. Nevertheless, we do know something about good and bad matches and about which characteristics of a work environment generally have the greatest bearing on the effectiveness of our four approaches to entrepreneurship.

We will specifically examine six characteristics: (1) maturity level (of the individuals and groups with which entrepreneur is working), (2) convening task(s), (3) convening problems, (4) external environment, (5) organizational structures and operations, and (6) organizational culture. In this essay, we will briefly consider the first four of these characteristics and suggest ways in which each of the four entrepreneurship styles relates to each of these characteristics. We will turn to the fifth and sixth characteristics in the next essay in this series.

Maturity Level of the Group

This first characteristic concerns the work-related maturity level of subordinates and groups reporting to an entrepreneur.[i] Three indicators of a group's level of maturity are often

identified: (1) ability to set high but realistic goals, (2) knowledge of the task and (3) experience in working with one another.

Ability to Set High but Realistic Goals

If they are to be left on their own, members of the group must be able to set high but realistic goals. An immature group cannot set goals independently. Placed in the context of our four leadership styles, a group is mature if it embodies both an inspiring style that leads to the setting of ambitious goals and a counterbalancing style that is thoughtful and knowledgeable about setting goals that are realistic. A group that cannot effectively set goals that are high but realistic is likely to look first toward an inspiring leader who offers a compelling dream or toward a thoughtful leader who can set a specific (and usually quantifiable) goal for the group.

Unfortunately, the inspiring entrepreneurial leader may set goals that are too lofty and unattainable. As a result, immature group members never have to be concerned about accountability, for the goals can never be attained anyway. Conversely, thoughtful leaders are inclined to set goals that are too low and that lack an inspiring power. Mundane goals that often actually operate as short-term objectives and are easily quantified tend to dominate many closely-held enterprises that are filled with immature work groups.

Knowledge and Experience in Performing the Convening Task

Maturity also depends on the group's knowledge of, and experience in, performing the assigned task. An immature group is composed of people who have little knowledge or expertise with regard to the convening task of the group. Members of a highly immature group also are unlikely to know where to go in order to gain the knowledge and expertise they need and may even be unaware that they lack adequate or appropriate knowledge and expertise.

In general, immature groups of this sort benefit most from thoughtful entrepreneurship, but may be inclined to rely too heavily on the thoughtful leader. Rather than becoming

knowledgeable themselves about the task, immature group members grow dependent on the wisdom and knowledge of their leader. They never grow up and never mature as a group.

Experience in Working with the Group

We next look at the amount of experience the group members have in working together when determining the level of group maturity. Participating entrepreneurship can be particularly effective in helping members of an immature group get to know each other better. The other three styles are less helpful when attempting to build an effective working team. They tend to foster too much attention on the individual who serves in the leadership role or ignore the human element and the team-building dimension of group development.

Approaches to Entrepreneurship and Maturational Stages

We propose that entrepreneurship in an immature group usually is most effective if it is assertive in character. As the group matures, a more participating style is usually appropriate. Highly mature groups usually thrive under inspiring and thoughtful styles. In essence, when a group is immature, it needs a forceful and task oriented entrepreneurial leader who will insure compliance with the requirements of the organization, as well as provide clear directions and move the group toward action.

This does not mean that the assertive leader should be dictatorial, nor does it mean that the other three approaches to entrepreneurship are not needed. Inspiring leaders help to build the excitement and commitment of an immature group, while specifically helping group members learn how to set high but realistic goals. The thoughtful leader can provide a realistic orientation for new employees to life in this specific closely-held enterprise, while also helping group members become knowledgeable about the task they are to perform.

As the group begins to mature, an emphasis on active participation and the empowerment of group members is critical, suggesting that a participating entrepreneurial leader is particularly appropriate. Typically, during this second phase of group development, there is considerable

conflict. Participating leaders typically are comfortable with conflict and with the ambiguity associated with a maturing group's attempt to find its own role and appropriate level of authority.

The third stage of a group's development begins when its members are comfortable in their roles and responsibilities. At this point, the group typically focuses on the long-term vision and values of the organization. Maturing groups often have acquired task-related expertise and established good working relationships prior to acquiring the ability to set high but realistic goals. An inspiring leader is particularly appropriate at this point in helping group members become competent in setting goals. The inspiring leader also may be needed to provide a boost in spirit and commitment at this point in the development of the group. Members of the group often have settled into a routine and have lost their sense of purpose and direction. Re-invigoration and a return to core principles and values enable a group to move to an even higher performance level under the encouragement and tutelage of an inspiring entrepreneurial leader.

The fourth stage typically concerns the establishment of long term policies and procedures that enable the group members to operate with a fair amount of autonomy. At this stage they can devote considerable energy to their own individual jobs and to new ventures that often lead to the establishment of new groups and the beginning of a new cycle of group development. Under such conditions, the thoughtful leader is likely to be of particular value, in that this person encourages reflection on past practices and the systematic and ongoing gathering of information to assist individual and group decision-making.

Just as the inspiring leader can often re-invigorate a group during its early development, so the new (and often disconfirming) perspectives and information that is stimulated by the thoughtful entrepreneurial leader shake up the group's complacency and settled perspectives regarding the work environment. Many successful quality improvement programs have been established in mature work groups that have been strongly influenced by thoughtful

entrepreneurs, who promote continuous improvement through the ongoing measurement and monitoring of quality.

Nature of the Convening Task

We have all observed that different types of leaders tend to be found in different functional units. People who lead sales departments often differ from those who lead production or research-and-development departments. It is surprising, therefore, to discover that leadership styles are rarely related to the nature of the task assigned to a group. Woodward is the major source of analysis with regard to this second criterion.[ii] Building on her research, we have identified four different kinds of organizational tasks: mass production, process production, unit production and specialized production.

Mass Production

Mass production and large-batch production is particularly common in the industrialized world. This is a highly mechanized manufacturing process that is characterized by long production runs of standardized parts. Output often goes into inventory from which orders are filled, because customers do not have special needs. Examples of this type of task include most traditional assembly lines, such as we find in the production of automobiles. More recently we find the use of this production mode in a wide variety of products ranging from fast-food hamburgers to modularized homes.

Typically, assertive entrepreneurship is the best match with this type of task, given that repeated, long-term tasks usually require ongoing monitoring and an emphasis on time-sensitive task accomplishment. When mass production is working smoothly, and as an enterprise moves toward higher levels of technology in its mass production processes, participating entrepreneurship may become more appropriate.

Continuous Process Production

Typically, this second kind of process is highly mechanized and is uncommon in closely-held enterprises (unless they are large, family-owned businesses). There is no starting or stopping point. This represents mechanization and standardization one step beyond those found in an assembly line. Automated machines control the continuous process, and outcomes are highly predictable. Examples include chemical plants, oil refineries, liquor producers and nuclear power plants. Many agri-businesses primarily operate in this manner, as do many large-scale fisheries and textile plants.

Continuous process production might also be considered the primary mode of operation in many human service industries. While these businesses (for example, department stores, hotels, theme parks, schools and colleges, hospitals, mental health clinics, government agencies) are usually not heavily automated, they typically are ongoing activities that have no distinctive start or end—though they often do have seasons, such as summer vacation, year-end sales, or reelections.

Continuous processing is also found in the financial and auditing departments in many enterprises. While the financial operations are often not as automatic and automated as we would like them to be, they are a form of continuous process production because they are ongoing, with no beginning point or end point (other than the somewhat arbitrary nature of the fiscal year). The same could be said of many sales departments, which are continuous processes.

As in the case of organizations and groups that primarily focus on mass production, those that are primarily in the business of continuous process production usually require assertive leaders. However, a thoughtful style is also appropriate, for careful monitoring of highly automated processes is critical. Similarly, in many human service organizations, close monitoring is needed, suggesting that assertive functioning is appropriate. A highly

participatory style that might be created in self-managed work teams is less likely to be welcomed in human service organizations. However, inspiring entrepreneurial leaders are often quite valuable, given that high levels of dedication are often needed for human service organizations to be successful. Members of these organizations are often faced with low wages, long hours and complex human problems. They need inspiration.

Human service organizations are particularly inclined to bog down in bureaucracy and paperwork. In such settings, thoughtful functioning is often not very helpful, for cold, rational processes can easily overwhelm any sense of heart or commitment to human services. In these settings, inspiring leaders are often needed in order to periodically elevate the commitment of employees, as well as remind employees of their primary mission with regard to serving human needs.

Unit Production

This third mode of production is very common in closely-held enterprises—such as arts and craft shops and organizations that specialize in job shop operations. These firms typically manufacture and assemble small orders to meet the specific needs of specific customers. Custom work is the norm. Small-batch production relies heavily on the human operator and is not highly mechanized. Many made-to-order manufactured products, such as specialized construction equipment, custom electronic equipment and custom clothing, exemplify this mode of production. High prestige automobiles that are individually crafted also fit in this category. The fast growing digital world of the Internet is populated by unit production organizations. Web-site designers, for instance, are often involved with unit production: each web-site is individually designed, but built on a frequently used template.

Unit production tasks typically demand close attention to detail and very high standards of quality. As a result, vision and values are usually very important and inspiring leaders are needed. Assertive leaders are often inappropriate in this setting, and participating leaders are usually out of place given the organization's reliance on employees with unique skills. A

thoughtful style often compliments an emphasis on vision and values, in that the careful assessment of quality is critical.

Specialized Production

The fourth type of task requires that a new and highly distinctive product or service be created for each customer. It is often performed in closely-held enterprises. Enterprises that produce motion pictures, television programs or other creative products are primarily in the business of specialized production, as are most research and development departments and many consulting firms (unless they offer pre-packaged training or assessment programs, which involve unit production). Marketing departments must frequently start over again in designing new campaigns, while many of the new high-tech firms allow a customer to personally design and order highly distinctive products through use of a computer that directly links the customer to production lines.

The thoughtful leader is often particularly valuable in insuring that specialized production is meeting customer specifications. While vision and values may help to provide overall inspiration for this type of organization, they offer little in the way of tangible assistance, given that each product is created from scratch in a whole new way. Usually the thoughtful leader will provide substantial freedom and autonomy to creative employees who must repeatedly provide innovative and distinctive services and products. Assertive and participating modes of entrepreneurship are least appropriate in this type of organization, given the need for autonomy and freedom of expression.

Nature of Problems Being Faced

Closely-held enterprises face many different kinds of problems and often need different approaches to entrepreneurship in facing these problems. Heifetz suggests that there are three types of problems, each with its own focus and each demanding a different kind of reflective process.

Type I

Many entrepreneurs define their problems primarily in technical and machine-related terms and look primarily for solutions of a technical and machine-related nature. Heifetz identifies these as technical situations (Type I) in which the knowledge of experts is critical.[iii] In organizational settings that focus on Heifetz's Type I problems, there is typically a strong need for information regarding the ongoing operations of the organization.

As many enterprises become more automated, employees are less often in the business of actually producing something and more often in the business of monitoring the operations of a machine or trouble-shooting technical problems when they do arise. A thoughtful entrepreneurial leader is likely to thrive in such a setting. She is needed to further nurture the technical problem-solving and decision-making skills of all members of her closely-held enterprise.

Secondarily, this Type I organizational setting often needs some assertive functioning, for thoughtful entrepreneurial leaders often produce too much caution and bureaucracy. Technology-oriented employees often get stuck in a particular mind-set, having finally mastered the intricacies of one complex machine or computer system. An assertive entrepreneurial leader encourages continuing exploration of even more advanced technology and the movement from technological speculation and the hi-tech drawing board to risk-taking, entrepreneurial ventures.

Type II

A second kind of problem is one in which "the problem is definable, but no clear-cut solution is available."[iv] Both the expert and person with the problem must be engaged in finding an appropriate solution. Decisions regarding human issues have often tended to be of this type. Although this second kind of problem is often fraught with difficulties and conflict, some entrepreneurs recognize that long term commitment to employee welfare is good business. Hence, increasing attention is being given to this second kind of problem, even if it is difficult

to solve. Over the long run, this new emphasis on commitment to employees hopefully will lead to greater competencies on the part of all members of contemporary organizations in handling Type Two people problems.

A different kind of response to organizational problems is evident in Type Two settings. Entrepreneurs in this setting typically place considerable emphasis on training and development, on career planning and advancement, and on the recognition of employee accomplishments. These leaders were made famous during the early 1980s by Peters and Waterman, in their search for corporate excellence,[v] and by Kanter in her thoughtful study of change masters.[vi]

Both inspiring and participating entrepreneurs are appropriate in these people-oriented Type Two settings. The inspiring entrepreneurial leader helps to build support, as well as offering frequent review of the extent to which members of the closely-held enterprise actually do what they say they are going to do concerning human welfare and involvement. It is particularly tempting for many contemporary entrepreneurs to talk about their commitment to the people working in their organization, given the growing public support for such an enterprise. It is much harder to actually enact such a commitment, given the complexity of Type Two problems.

The inspiring entrepreneur thus can help to keep a closely-held enterprise honest regarding its commitment to people. The participating entrepreneurial leader is also needed, given her interpersonal orientation and concern for group commitment and community. In many ways, the participating leader is a product of this new emphasis on people in the organization. The participating leader, therefore, can often guide this type of initiative. She can identify appropriate processes and procedures to address various types of people-related problems facing a closely-held enterprise that has made a strong commitment to its employees.

Type III

The third type of situation is one in which "the problem definition is not clear-cut, and technical fixes are not available."[vii] This type of problem is particularly *messy*[viii] in that it is not only difficult to define the nature of the problem but also difficult to know when the problem is actually solved. Heifetz suggests that this type of situation requires new learning on the part of everyone participating in its solution. Furthermore, "changes in people's values, attitudes, or habits of behavior" are required if progress is to be made on problems nested in this type of situation.[ix]

What about entrepreneurship in this third type of situation? We would suggest that the participating entrepreneur is most appropriate, for everyone is a learner when confronted with situations in which there is neither a clear problem definition nor readily available solution. The participating leader is right for this job precisely because she encourages members of her group or organization to dwell in the gap between the real and ideal and to tolerate the ambiguity that is inherent in tackling Type Three problems.

Nature of External Environment

Many of today's closely-held enterprises must survive highly turbulent and unstable conditions. For a variety of reasons, however, many other closely-held enterprises consistently encounter a stable and often unchanging environment. These two different environments require quite different approaches to entrepreneurship.

Stable Environment

Some enterprises operate in stable and essentially unchanging environments. They may be located in a very conservative society that honors tradition and continuity. Alternatively, these organizations may operate in heavily regulated settings. Many small human service agencies and professional practices fit into this category. These are closely-held enterprises that must comply with many regulations. Organizations with long histories of success in a particular

market or with a monopolistic hold on a particular market may also experience very little change in their environment.

When the surrounding environment is stable and unchanging, an assertive style is often required to keep employees productive and motivated to work hard, despite the lack of competition or the abundance of restrictive regulations. Thoughtful functioning is also frequently needed in this type of organizational setting. Employees are often attracted to and remain committed to this type of organization because of its stability and reliability. In closely-held enterprises, they often like they are "family." For these employees, consistency of practice and rationality are often particularly important. The thoughtful leader tends to emphasize these factors.

Unstable Environment

Many other closely-held enterprises do not, at least on the surface, appear to be as fortunate as these more stable enterprises. They exist in an environment that is unstable and highly turbulent, hovering on the brink of both order and chaos.[x] When enterprises operate in this type of environment, both inspiring and participating styles are strongly needed. Closely-held enterprises (typically living with unclear boundaries) must hold a clear sense of mission if they are to survive the turbulence of an unstable environment. The inspiring entrepreneurial leader helps a closely-held enterprise stay on track and assists in the ongoing clarification of the various components of a mission statement.

Along with a potential loss of mission, closely-held enterprises that exist in unstable environments are often vulnerable to a loss in any sense of commitment on the part of those working in the enterprise. The unclear boundaries, the shifting values of workers and the newly emerging emphasis on knowledge as capital make it hard for leaders of closely-held enterprises to elicit commitment from their employees. A participating entrepreneurial leader can help build this commitment in a closely-held enterprise.

In the next essay, we turn to two other characteristics that interplay with entrepreneurial leadership styles: organizational structures and operations, and organizational culture.

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[i] This discussion is based in part on the early work of Hershey and Blanchard (1977).
[ii] Woodward (1958)
[iii] Heifetz (1994, p. 74)
[iv] Heifetz (1994, p. 74)
[v] Peters and Waterman (1982)
[vi] Kanter (1983)
[vii] Heifetz, (1994, p. 75)
[viii] Schon, (1983)
[ix] Heifetz (1994, p. 87)
[x] Vail (1989)