Will Entrepreneurship Survive?

An Interview with Betsy Atkins,
President and Chief Executive Officer, Baja Corporation


Betsy Atkins

EDITORS' NOTE *In addition to her current post, Betsy Atkins is also the Chairman and Chief Executive Officer of Clear Standards, Inc. Atkins co-founded InterLAN, an Ethernet network controller card systems company, and in 1988, she became the CEO of Key Computer Labs. In 1989, she co-founded Ascend Communications and served as a board member and their Executive Vice President of Global Sales, Marketing, and Services. Ascend was acquired by Lucent in 1999 and Atkins joined the Lucent board in 2000. Atkins became the CEO of NCI, Inc. a neutraceutical functional food company, building the company until it was acquired by Artal Luxembourg in 1993. She is on the board of directors of Polycom, Inc., Reynolds American Inc., Chico's, and SunPower Corp. Atkins is a member of the NASDAQ Exchange Board of Directors, an advisor to British Telecom, and a Trustee of Florida International University, as well as a member of the Council on Foreign Relations. She received a bachelor's degree in Liberal Arts from the University of Massachusetts at Amherst in 1975, Magna Cum Laude, Phi Beta Kappa.*

COMPANY BRIEF *Baja Corporation, a venture capitalist firm founded by Betsy Atkins in 1991, is known for its technology-investing acumen, investing in companies such as Yahoo and eBay before they were household names.*

Are you surprised at the severity of the economic crisis and the speed at which it progressed, and where are we in the process of recovery?

I did not expect this crisis to be as deep as it is, and I think it will follow the lines of the '20s, which was in the shape of a W. We went down, we've now gone up, and I think we'll go down again before we come up, because the debt that the government has taken on and some of the major programs they're looking at doing are going to enter the private sector. That is going to have a big impact. If health care is socialized, for instance, and 15 percent of our economy – which is the health care portion – is taken over by the government, that's going to hurt America's economy.

Some feel the stimulus was needed at the time, but that real recovery is going to come back to the private sector via entrepreneurship and innovation. Do you agree, and are the incentives there to spur on that type of innovation?

The concept of the government putting money into the economy could have been fine philosophically if they had put the money into small businesses. Seventy percent of the businesses in America are small- and medium-sized businesses, and if you'd given every one of them $1 million instead of all that money to GM, it would have really helped the economy. Historically, the government hasn't been successful in any of its enterprises. They're insolvent. Social security isn't solvent, the post office isn't solvent, Amtrak isn't solvent, and GM isn't solvent. I'm not a big believer that the government entering the private sector is helpful.

With so much regulation today, are we stymieing entrepreneurship, and from a policy point of view, do things need to change to help drive innovation?

Innovation by its nature often starts as a small business – it's entrepreneurial. The regulatory and tax burdens are going up, so that's not good for innovation. More importantly, this administration says it's going to take away capital gains, which is a key incentive. Everybody comes to America because this is the place where you can grab the "brass ring" and own it all if you work hard. The current government policy orientation is not supportive of that. That said, I believe the spirit of entrepreneurism has not died. Entrepreneurs in America will continue to innovate, and even in this somewhat unhelpful climate, we will still see innovation and new major breakthrough ideas.

There is a debate about whether one can really teach entrepreneurship or whether you're born with that ability. Do you believe it can be taught?

I believe you can teach the business of how to be an entrepreneur – how to write a business plan, how to identify a large and growing market, and how to identify an opportunity – but you can't teach somebody to come up with an idea. However, there are those who are entrepreneurial by nature and often can't monetize it. I've been lucky enough three times in my career to find entrepreneurial people with whom to start companies.

As a company grows, can it remain innovative when it reaches a certain size and scale?

Ninety-five percent of companies are lucky to have one great innovation, and after that, they incrementally iterate or add features and functions. Google is one great idea. Microsoft was one great innovation. There are a few exceptions like Apple; they created the Macintosh and then they came out with the iPod. Often when you're large, you are not structurally set up to innovate. If you want to create an environment that enables innovation, you must change the corporate structure and add a different structure, like a laboratory.

Can the same person who initially creates and develops an idea lead that company after it has grown, and is it challenging for entrepreneurs to give it up when it's their baby?

It is extraordinarily unusual to have an entrepreneur who can scale through the different growth stages. Most of the time, the entrepreneur may be good for the first $500 million. Companies stumble and you need a new leadership team, breaking through $1 billion, and again through $2 or $3 billion. You have to forward hire a different skill set. You almost never have somebody who scales like Mr. Gates, Mr. Jobs, Mr. Ellison, or Mr. Greenberg. It is always difficult to have leadership transition, but the hardest one is for the founder to let go of the baby. That typically comes with some "fur flying" in the boardroom.

Will you give a brief overview of your thinking around the lifecycle of companies and how they progress?

I believe that, statistically, 40 percent of companies have disappeared in 20 years – they've gone out of business or they've gotten acquired; in 40 years, 60 percent are gone. So look at your company: where is it on that lifecycle? Cisco, for instance, is around 24 years old. It's middle-aged, so it acquires nimble innovators and tucks them in and puts those products through the existing distribution channel. The parent is not functionally set up to innovate, so it acquires innovation. Hewlett-Packard is around 45 years old; it's in the 40 percent of companies that make it beyond 40 years. Hewlett-Packard set up HP Labs to be able to innovate, because you can't try to foster innovation in the main

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company's R&D function; it can't happen, and it really shouldn't. Companies have an obligation to the shareholders to keep growing that main company through product add-ons, not through innovations, which by their nature would be different.

When a company achieves a certain size and scale, do they need to acquire the innovation, or partner for it?

You can innovate in a variety of ways – by product, by service, or by distribution channel. You can add a viral marketing component, a multi-level marketing component, a dealer, or a franchise – there are lots of distribution channel strategies which can be innovative. So it doesn't only have to be a product or service. That said, it's difficult for companies to change their business model, the way they go to market, or the way they create products. Companies are generally most effective at continuing to innovate through acquisition.

When companies look to acquire, what are the key things they need to be thinking of to make sure they're going to be successful with the acquisition?

Seventy-six percent of acquisitions fail, and that's a lot of wasted shareholder money. So if you're going to grow and innovate through acquisition, you have to structure an "integration team" and process, along with a series of methodologies to ensure you don't lose the entrepreneurs, at least for the first year, so you get the transfer of knowledge. A lot of the value may be in the entrepreneurs' heads as institutional knowledge. To maximize the acquisition you must get their product through your distribution channel quickly. You can't lose that window. You acquired this company because it was first and had a "time-to-market" advantage. Push it through your distribution channel and take advantage of that lead. You have to be organized in order to rapidly integrate an acquired company and get the products or services to market quickly. Initially keeping that acquired company intact helps. Companies may hurt an acquisition because they dismantle them too soon. Functionally dismembering a small delicate 100- or 200-person organization and marrying it up into the big organization by functional area too soon, and you may lose value. Sometimes, you have to keep the acquired entity intact for 12 months to retain the value and to quickly bring it's products or services to market.

Are you concerned that the public perception of business is still very negative? Can more be done to get the message out about all the good things companies do?

It troubles me that our press has decided that business leaders are villains. Seventy percent of all Americans work for small businesses, and only 30 percent are working for multibillion-dollar entities. While our press is busy saying all business leaders are bad, they're actually implicating their own realtor, dry cleaner, and cafe owner, as these are all the small businesses of America. It troubles me deeply that we're vilifying large business. Large businesses employ a lot of people, and they're the ones who can afford and do give the most back into the community. The press and the politicians have decided its "populist" to go after Wall Street, which has actually created a huge number of jobs and wealth.

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Many have suggested that boards are too closely aligned to CEOs. Having been on boards for a long time, how have they evolved, and is the role of the board more in tune with what it should be?

I've served on public company boards for over 20 years, and have seen quite a shift in the board's role. Twenty years ago, boards were more likely to concur with management's proposals rather than have a robust discussion. It's also likely management didn't see the board as a resource. Today, a board can be a competitive differentiator for a company. Boards are opening doors to facilitate business, using their functional backgrounds and expertise. They're more interactive with management in discussions about strategy, proposed acquisitions, or market shifts.

Most boards now have an annual off-site meeting, which is a two or three-day deep strategy dive. The board is involved as the company reviews its annual and long-term strategies and, importantly, reviewing the assumptions the strategy is predicated on. This level of exposure allows us to be more effective in our oversight. With the advent of Sarbanes-Oxley, there is a mandated executive session, which results in the board "processing as a team" and having deeper discussions about the company's opportunities.

You have been involved with start-ups and can lead companies of all sizes, but also sit on boards and see things from the corporate side. Do you enjoy one aspect of it more than the other, or is it all fun for you?

I look at board work as a "portfolio," like you would an investment portfolio. I serve large cap, value companies, mid-cap companies, and growth companies, and I sit on the boards of small companies. You learn from each and I cross-pollinate.

What does it take to be a successful CEO today?

A successful CEO is one who stays closely in touch with the customers in the marketplace. If you are not out with your customers in your market, you may miss the shifts and the competitive intrusions of the other companies, and you're unable to react. You get the best market intelligence when you sell something. If you get too far away from the buyer and what is important to them, you lose out. A good leader is somebody who has confidence in their views and is able to make informed decisions in a timely manner. If they make the wrong decision, they find out where they're off base, and refine that decision. Good leaders are thoughtful and analytical but also decisive. They are inspiring, have high integrity, and are courageous.

You've been in the academic world and continue to speak to future leaders. What should they be trying to do early in their careers to grow and be successful in the corporate world?

The one advice I'd give to graduates is to distinguish yourself as the person who works the hardest, does what he says, and always follows through by reporting back, whether successful or not. If a new graduate cultivates those attributes, he or she will truly stand out. ●