

# Entrepreneurial Spirit

The Graceland College Center for the Study of Free Enterprise & Entrepreneurship

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## The Director's Soapbox

*by Kevin Prine*



The last couple of decades have seen a tremendous number of theories prescribed for the successful management of employees, among them are Total Quality Management (also referred to as TQM, CQI, and other acronyms), Management-by-Walking-Around, The "One Minute" Approach, Management-By-Objective, Quality Circles, Open Book Management, and the GE Workout Process. Not surprisingly, all of these theories contain elements that many an astute business owner knows by instinct; the importance of employee training and development, employee empowerment, enhancing communications, and instilling a shared vision.

Recently, however, I have come to the realization that these elements are also the very things that make our free market so successful. For example, try to visualize what happens when the above principles are *not* applied:

- ✓ Central management makes all of the decisions and has access to perks and advantages (nice offices, company car, etc.) that are unavailable to the "common worker."
- ✓ Most employees are trained with one set of skills, and act as specialized "cogs" in the production process.
- ✓ Layers of bureaucracy and a lack of incentives discourage communication and the flowing of new ideas.
- ✓ Resources and responsibilities are assigned with the object of perpetuating the status quo or as a result of good politicking.

Was the image you pictured the typical corporation in America, or the Soviet Union of the 1970's? Remarkably, the characterization is similar, and considering the outcome of communist economies, one may wonder whether US corporations are being run in the most effective manner. The next question then, is: wouldn't a company be more successful if it embraced the same values as the market system that has allowed it to prosper?

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## The 1999 Graceland College Entrepreneurial Roundtable: Wednesday, April 21st

*There is an old story about a newly-hired woodcutter. . .*

*His first day on the job, the gruff old foreman instructed, "You're paid \$1 for every tree ya' cut down. Most un' our jacks are cuttin' 'bout 20 trees a day." Now, twenty dollars was great money back in those days, and the new woodcutter figured his fortune was made. "For," he thought, "if those 30-year-old geezers were cutting 20-a-day, there isn't any reason I can't do 40."*

*On the first day, however, the young man only cut down 18 trees. "Ah well," he thought, philosophically, "I'm still getting used to the work and will do better tomorrow." The next day, though, he only cut down 15 trees, and rationalized, "So I was tired from the first day, but now, I'm getting the hang of it." By the end of the week, he was down to 10 trees a day. Discouraged, he went to talk to the foreman and told him he was ready to quit. "I don't get it!" the new woodcutter complained, "I am working harder than ever, but I'm only doing half what the other guys are cutting." "Do ya' ever sharpen your saw?" queried the foreman. The young man replied,*

*"Course not, cause that would have taken more time, and I really would have fallen behind!"*

*People will certainly get the chance to sharpen their saws on Wednesday, April 21<sup>st</sup> at Graceland College. Throughout the day, speakers (ranging from the former CEO of a multi-billion dollar company to a nationally recognized professor from a large university) will be recounting their "secrets" on how to start-up, manage, and run a business. Even more importantly, those in attendance will be able to interact one-on-one with the speakers, fellow business-owners, professors, and students.*

### **Bulgarian Proverb:**

***"Seize opportunity  
by the beard, for it  
is bald behind."***

*Though an event featuring this quality of speakers would normally cost \$100 or more to attend, contributions from the South Central Iowa Community Foundation, the Dekko Foundation, and the Sandage Charitable Trust have made it possible for individuals to attend FREE. However, seating is limited.*

*To help guarantee your place at this tremendous event, fax the form attached to this newsletter to Mary Cotton, at 515-784-5410; or, mail your registration to "Center for the Study of Free Enterprise & Entrepreneurship, Graceland College, 700 College Ave., Lamosi, IA 50140.*

# Entrepreneurial Courage

by David Robino

Way back in the dawn of personal computer history (1985!), the best and the brightest heeded the mantra: "Head west, young man (and woman), head west."

It was almost like the second gold rush. Only this time, jet airliners and maybe the occasional VW microbus replaced the trains and wagons carrying waves of migrants from all over America to California's Silicon Valley. But, while everyone else headed for the valley, a few people stuck to the plains. Two of them were 22-year-old Ted Waitt and his buddy, Mike Hammond. Holed up on Waitt's family farm outside Sioux City, Iowa, located a decade from the robotic high tech of the coast, the two had a thought - let's start a computer company.

On September 5 1985 in that family farmhouse, Waitt and Hammond founded Gateway on \$10,000 capital and zero experience between them. "We were probably too dumb to know all the things that we couldn't do," Ted says now. The fledgling business launched to a chorus of external skepticism. Never make it. Can't be done. This is the Midwest, not the Silicon Valley. It'll never last.

But Waitt and Hammond reaffirmed a key to entrepreneur concept: First, you have to believe. They believed that customers cared little where a product was made within the U.S. Instead, customers cared about things we all care about: quality and service in products, respect, honesty, humility, and a sense of humor in a company.

Looking back on those unassuming start, it's easy to identify some of the key entrepreneurial concepts that both started and sustained Gateway.

**Always be alert to opportunity** - The seed that grew into Gateway came when Ted Waitt saw opportunity while working at a computer store in central Iowa. It became clear to Ted that people were becoming familiar enough with computers to buy them sight unseen. Since computers don't differ radically in form and function, the buying decision instead rested on quality, service, price and seller reputation. And, given the high margins and limited selection of the early PC business, Ted saw an opportunity to offer people much more for much less.

**Biographical Data:** Mr. David J. Robino, Executive Vice President & Chief Administrative

David joined Gateway in January, 1998 and is responsible for directing Gateway's human resources, community relations, government relations, law, compliance and ethics, and administration functions. He was formerly Human Resources Vice President at AT&T's Business Markets Division. Prior to AT&T, David worked for Maytag, Pepsi-Cola and A.C. Nielsen. A native of Colorado, David graduated from Graceland College in Lamoni, Iowa. He received a Master of Science degree in industrial relations from Iowa State University. David serves as Vice Chairman of the Board of Trustees for Graceland College. He is also a member of the executive committee of the Iowa College Foundation board and serves on the board of the University of California, San Diego Foundation.

While a lot of people can see the initial opportunity, not so many remain as vigilant after they establish their business. Gateway has remained alert to those opportunities. And, since rapid change has been part of our culture since those first days, we've been more likely to change when needed to capitalize on opportunities. In the technology industry, the alternative to change is bankruptcy. That stark reality reminds us all to keep our eyes open for trends and move to meet them.

**Have the courage to change to meet opportunity** - It's not enough to see opportunity, you have to be brave enough to change to capitalize on it. Human nature loves consistency and status quo. But, a big part of the entrepreneurial spirit is the courage to take risks. That's rippled down through Gateway. We encourage people at Gateway to take calculated risks. Here it's better to try to make great things happen and fail than it is to get conservative and stop reaching for new business, new products and new ways of thinking and acting.

A great example of how that spirit lives on at Gateway came in early 1998 when we moved our corporate headquarters to San Diego, near the same Silicon Valley that Ted initially resisted. In 1985, the right move was to stay in the Midwest. But, when it became clear to us that expanding to San Diego - without abandoning our Midwestern roots and operations - was the right change to make for the business, Gateway did it. The reaction back home was mixed. Change stirred fears, but the company had courage and talked through our fears and doubts.

**Live by concrete values** - Entrepreneurs take risks; it's part of the definition. But, they have to remain grounded at the same time. There are risks and then there are gambles. Gateway has long lived by a set of values that help keep our heads straight. Our values include respect, caring, teamwork, common sense, aggressiveness, honesty, efficiency and fun. While we take risks in business every day, we also recognize that these values, taken as a group, cannot be violated if we are to survive long-term. When opportunity conflicts with our values, the brave thing to do is to let the "opportunity" pass.

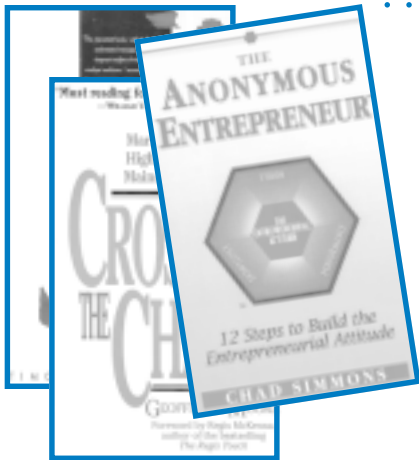
**Know what you don't know** - From the beginning, Ted and Mike have realized that they don't know everything, and have been honest enough to reach out to people who had the expertise the business needed. In 1998 Gateway hired many top-level executives to build on an already strong team. They all bring individual talents, backgrounds and personalities that make the whole company stronger.

It's a mistake to think you know everything, and a tragedy to hire people with weak skills out of fear that talented employees will threaten your position within the company. Just the opposite is true - successful companies help their employees grow their talents and skills. Successful companies also know that everyone in the organization, and I do mean everyone, has good ideas. From the front line to the CEO's office, there are great ideas. Making sure everyone feels like he or she is an important part of the company and constantly asking for ideas isn't a sign of weakness, but of strength. Ted and Mike have known that from the beginning and their example continues throughout Gateway today.

**Focus, focus, focus** - It's one of the most difficult things, especially in a business that moves at the speed of light. From our founding, Gateway has tried to focus on the objective - serving our clients. We're human, so sometimes we lose that focus, as all companies do, but we get it back. In a certain sense, your clients are your bosses. How well you serve them and help them meet their goals determines your success.

Way back when Ted and Mike started Gateway on Iowa's fertile plains rather than the Silicon Valley, they had no idea the company would grow into a \$8 billion giant after 13 years. Frankly, they didn't know what to expect, but neither did they limit themselves by setting an expectation. Instead they worked hard and tried to improve the business at least a little bit every day. Nearly 14 years later and we're still improving, some days a little, some days a lot. And we still have entrepreneurial courage. If we keep it, there's no telling where the next 14 years will take us.

RECOMMENDED  
READINGS



## How to Want What You Have

by Timothy Miller

Many entrepreneurs reach success and find that they still feel unsatisfied. This well-written book was a choice of both the Quality Paperback Book Club and the Book-of-the-Month Club. It may provide the direction you need to find contentment. \$12.00 for paperback.

## The Anonymous Entrepreneur: 12 Steps to Build the Entrepreneurial Attitude

by Chad Simmons

This book could be the catalyst that gets potential entrepreneurs to take the first step, or it can help the floundering entrepreneurs find their focus again. \$15.00 for paperback.

## Crossing the Chasm

by Geoffrey Moore

Though written for the entrepreneur involved in the high-tech industry, this book is excellent for anyone trying to introduce a new concept to the market. It explains why some seemingly "guaranteed winners" fail after showing great promise during their introductions. \$14.00 for paperback.

## MoneySearch.Com

This web site is an amazingly good place to get financial information, including sources for start-up capital. For example, a search on this site for the terms "equity + capital" provided 54 general and specialized venture capital firms.

<http://www.moneysearch.com>

## Foundation for Enterprise Development

This is tailored a little more towards employee ownership, i.e. Hy-Vee, than individual entrepreneurship. This web site is a great spot for the business owner who is ready to share ownership responsibilities.

<http://www.fed.org>

## EntrepreNet

If you need some information on entrepreneurship and think it might be available online, this web site probably has it.

<http://www.entrepre.org/enet>

# Mariotti's Guide

by Dr. Elizabeth Sandage

How many of you have often wished you could start your own business and make a success of it, but didn't know how to go about it, or else thought your ideas for the type of business you might like to start weren't good enough, or that the market for the product you had in mind would be too small?

Who can be an entrepreneur? The amazing answer to that question is fully detailed in a very readable and delightfully written textbook, "The Young Entrepreneur's Guide to Starting and Running a Business," by Steve Mariotti. It literally is a "how to" manual on getting a small business started and includes all the tools necessary to achieve success. A "resource list" of names, addresses and telephone numbers is included at the end of each chapter. The key word to describe this book is "Inspiring."

The book is the culmination of Mariotti's experiences as a business, math, and special education teacher in the New York City public schools, specifically in such notorious neighborhoods as Bedford-Stuyvesant in Brooklyn and "Fort Apache" in the South Bronx. How he overcame the appalling conditions in those classrooms, captured the attention of unruly students, and got them interested in the principles of entrepreneurship is an amazing and inspiring story with a very positive outcome, not only for Mariotti, but more importantly, for the students whom he taught.

The ultimate result of the years Mariotti spent inspiring such students and literally changing their lives in a very positive way through education in entrepreneurship led him to found a non-profit organization entitled the National Foundation for Teaching Entrepreneurship (NFTE) in 1968. His focus was primarily on at-risk youth, but the principles of entrepreneurship detailed in his book are of great value for any would-be entrepreneur of any age.

The reasons for studying entrepreneurship include the fact that entrepreneurship is an art, not a science, in the words of the author, and above all, should be fun. Studying entrepreneurship opens the way for the individual to pursue his or her dream. However, the person who does not dream of starting a business will benefit from the information in this book in that he or she will become a better employee. The precise but simple details for starting and operating a small business that Mariotti provides opens the door to financial independence for those who have the entrepreneurial spirit.

By the time the reader has finished with this book, he or she will have learned the principles of negotiating successfully, how to set up financial records, understand operating costs, and how to understand and prepare the appropriate income statements that track the business' financial condition from month to month. The author takes the reader through examples of each, step by step, using a simple format that is very easy to follow but that provides the essential tools for each phase of starting and operating a small business.

In addition, to illustrate each step in the process of starting one's own business, Mariotti provides real-life examples of successful entrepreneurs. These biographical sketches focus on the basic details of how these persons got started and how they succeeded. Included in these vignettes are details describing the kinds of people who become successful entrepreneurs. "Many... started life with very little money or education. Some came from families with little financial wealth but who were rich in ability to turn dreams into reality."

The would-be entrepreneur will gain insights into marketing and advertising, and learn the importance of market research. He or she will learn how to turn an idea into a real product and how to protect inventions. Also included in the book are detailed descriptions of the four basic types of businesses, financing strategies, and the legal obligations of a business owner, including the inescapable taxes that every business has to deal with.

After the reader has gone through the book and in his/her own mind has determined what type of small business to start, Mariotti provides information on how to find a wholesaler from whom to buy the product or products the fledgling entrepreneur has determined will be the core of his/her small business.

As a final exam, so to speak, he provides a worksheet and clear instructions that lead the student through the steps for writing a business plan. This exercise utilizes all the information that has been supplied throughout the book.

Read, work through the exercises, become an entrepreneur, and enjoy your life.

### Biographical Data: Dr. Elizabeth Sandage

Dr. Elizabeth Sandage called Colorado "home" until moving to Illinois in 1970. She received her bachelor's and master's degrees from the University of Colorado and her doctoral degree from the University of Illinois. She taught advertising at the University of Illinois until she joined her husband, Dr. Charles Sandage, at Farm Research Institute. She has been an integral part of the Sandage husband-wife team that provided the catalyst for starting The Center for the Study of Free Enterprise and Entrepreneurship at Graceland College.

## Director's Soapbox

*continued from page 1*

To answer this question, one might look at a growing-but-relatively-unknown management theory that is beginning to emerge dubbed Market Based Management<sup>®</sup> (MBM). Charles Koch, CEO of the Wichita-based Koch Industries (currently the second largest privately held corporation in the United States - approximately the same size as Pepsi), originated the idea in the business world. Utilizing the six dimensions of the free enterprise system explained in Dr. Steve Anders' essay in last Fall's *Entrepreneurial Spirit*, MBM within a company would take on the characteristics found in Figure 1.

Market Based Management <sup>®</sup>	
Free Market Characteristic	Looks Like This In A Company
Private Property	Significant employee ownership
Freedom of Enterprise and Choice	Based on their past successes and training individuals "earn" the right to initiate, administer and earn profit from their own ideas.
Self Interest	Compensation is tied directly to the profits added to the firm as a result of the individual's efforts.
Competition	To keep and gain responsibility, divisions within the organization must perform their duties better than can be done by others who are inside or outside the company.
Markets and Prices	Divisions in the firm are run like individual entrepreneurial companies, and bill each other according to their costs and profit expectations.
Limited Government	Because management is extremely decentralized, the company constructs a situation where the only way for individuals to succeed in the organization is through sharing the common vision of the large firm, ethical action, and constant training and development in entrepreneurial business principles.

Figure 1

Unfortunately, MBM seems to have very limited success unless all elements are at work in the firm; one needs only to look at the current economic situation in many Eastern European countries to see the result of a partial use of free market principles. Thus, very few companies have applied Market Based Management<sup>®</sup>. In a recent article, Koch enjoins, "People looking for 'Ten Tips on Creating a \$30 Billion Corporation' or 'Shortcuts to Management Success' will find little satisfaction in Market Based Management. It's not a panacea; rather, it offers an intellectual framework for business management, a form of mental discipline. Like all disciplines, it's difficult to cultivate; I've been at it for more than 30 years, and I'm still learning."

Notwithstanding, Koch Industries is certainly an example of the success one may achieve when adopting MBM. Another company called Nucor Steel embraced a very similar philosophy and also experienced phenomenal results. \$100 invested in their initial public offering in 1972 would be worth well over \$1 million today. This is even more amazing when one considers that the growth in stock value came from a company in the declining US steel industry (unlike similar increases in the Internet stocks of today).

If you are or will someday be a business owner, I recommend that you take a look at Market Based Management<sup>®</sup>. You can get some good initial information from the George Mason Center for Market Processes at <http://www.gmu.edu/departments/cmp/CMBM/CMBM2.html>, or call them at (703) 934-6980 and order the booklet *Introduction to Market Based Management* for \$5.

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## Entrepreneurial Spirit

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