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Passing the torch of sustainable business

by Gil Friend - 12.4.07

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The word “entrepreneur,” of French origin, means one who “takes the between.” In my younger days, I viewed entrepreneurs as exploitative—business owners who opportunistically extracted value from an economic flow. But in fact, entrepreneurs can create the flow—or the channel in which the flow can run—by recognizing an opportunity and “taking the between.” By standing in the gap, entrepreneurs have the ability to invent opportunities that can only exist if someone... if someone does what?



The usual answer is “takes on a risk for the opportunity of a return.” Yet while entrepreneurs are commonly seen as risk takers, the best ones are actually risk mitigators: designers who create ways to get reliable results amid chaos and confusion. Entrepreneurs differ from inventors: The inventor’s task is to innovate, to create something unprecedented. The entrepreneur’s is to translate innovation into something reliable, replicable, consistently deliverable and economically viable (even when, as in the case of entrepreneurs such as Penn and Teller, what they consistently deliver is the unexpected).

Their task is to stand in the gap and take the place between present and future, between reality and opportunity, between what Bucky Fuller called present state and preferred state, between one possibility and another—and design, implement and sustain the bridge.

Why do people do this? To get rich, right? For the potential hockey stick payoff? Well, yes and no. “Everyone knows” the purpose of business is to maximize returns, whether for the entrepreneur or the shareholders. But “everyone” isn’t always right. Observers as diverse as management consulting guru Peter Drucker, Bank of America (NYSE: BAC) founder A.P. Giannini and cybernetician Stafford Beer—oh, and me—have long recognized the purpose of business as accomplishing what the business is designed to do. Profit is the consequence of doing that well, a way of keeping score.

Or, as I often tell my clients, no one thinks the purpose of their business is to pay the light bill. Utility bills are just a cost of doing business. Yet, for some reason, people think the purpose of their business is to pay their shareholders.

Perhaps paying the shareholders for the use of their capital is just a cost of doing business as well.

Ask Whole Foods (Nasdaq: WFMI) CEO John Mackey to name his No. 1 stakeholder, and he won't say shareholders. They're No. 3. Customers? Nope, No. 2. Employees, says Mackey, are the key constituency, since without satisfied employees you don't get satisfied customers; and without satisfied customers, you not only can't pay your shareholders—you don't have a business.

The sustainable industries universe has long been led by purpose-driven entrepreneurs. As a colleague said recently, "We're not tourists. We live here." He said that, of course, because lots of new kids are moving to town.

That's a good thing: It's a sign our ideas are taking hold, economic trade-offs and incentives are shifting, and there's a chance to out-compete, if not subvert, the dominant paradigm. And it's a challenging thing, too. As bigger players with more resources rush into the markets that Sustainable Industries readers have pioneered, the pioneers of sustainable industries face huge challenges: how to maintain our creative lead, compete effectively, grow both rapidly and wisely, measure success and capitalize on success.

One key element to maintaining a competitive edge is, as "The E-Myth" author Michael Gerber put it, working on your business, rather than in your business. This demands a different role than that of a brilliant solar technology inventor, a passionate biofuels advocate or a forward-thinking architect [see "[How \(not\) to sell out](#)," *SI*, December 2007]. It demands the enterprise designer, who can create a business system that works, who can set it in motion to work effectively and consistently—even without the founder. (You may love the work. You may want to do it forever. But if you're indispensable, you're a slave to your business, not its master.)

A second key element of a successful business is having the right exit strategy. The present model of the American Dream offers few options for successful entrepreneurs: Keep working, go public, or get acquired. But for truly innovative small businesses and their founders to thrive, there must be more options for continuing their work past the first generation.

The youthful spark that encourages the corporation to begin courting the startup rarely persists past the signing of the merger. (In fact, relatively few mergers produce net value for shareholders.)

It takes vision for an entrepreneur to be able to turn down the twin suitors of the IPO and acquisition and instead hold to a growth plan that helps a company walk its true path without warping its mission. As Carl Schmitt, founder of smart growth-oriented University National Bank & Trust Co., said in a 1991 article in *Inc.*, he could have grown his profitable company faster, "But it would have cost us everything. In the bureaucracy of growth, you lose your distinctiveness."

So what are the options?

New business structures that will meet the needs of both entrepreneurs and investors must emerge. Patient capital is one option on the table—but any strategy that depends on self-restraint faces a long, uphill climb. Structured patience, designed into charters and covenants (on the model of the B

Corporation and Upstream 21) is essential for patience to survive the occasional inspired and generous leader [see “[Five under 35](#),” *SI*, September 2007]. Employee ownership—whether via an Employee Stock Ownership Plan, co-op, or more-than-token stock options—is another example of giving responsibility to the people who most benefit from current and future innovation: the company’s workers.

As the early entrepreneurs of sustainable industries pass the torch to the next pride of young lions, the mission and values of their enterprises must be passed along to foster further innovation.

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**Gil Friend** is president and CEO at Natural Logic ([www.natlogic.com](http://www.natlogic.com)), a sustainable business consulting firm based in Berkeley, Calif. Benjamin Privitt, assistant to the CEO, contributed to this commentary.

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