

Concept of corporate entrepreneurship



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Corporate entrepreneurship is a growing trend in large companies. Partly this development comes from the fact that markets become more and more competitive which makes it more important for companies to look for entrepreneurial opportunities that can improve its performance (De Clerck, Dimov & Thongpapanl, 2009). It is argued that corporate entrepreneurship is an opportunity that can improve a company's performance. Also corporate managers are aware of the need for new entrepreneurial opportunities and are seeking new innovative methods of motivating people to be more creative and make thereby the organizations more competitive (Ginsberg & Hay, 1994). In relation with the upcoming trend of corporate entrepreneurship, sources of knowledge are becoming more and more important in the process of innovation (Kelly, Peters & O'Connor, 2008).

In the 1980's senior corporate managers became interested in the process of entrepreneurship, because they realized the need to speed up the process of inventing and commercializing innovative products and services. In these years, managers became aware of the importance of strategic innovation in responding to the competitive challenges of a shifting marketplace (Ginsberg & Hay, 1994).

Much research has been done in the field of corporate entrepreneurship and innovation. In large companies the concept is used with regards to stimulating innovation or to improve the performance of the company.

Baden-Fuller and Stopford (1992) say that corporate entrepreneurship can be the tool which can boost companies in order to get them out of stagnating industries. In contrast, there are also indications that corporate entrepreneurship strategies are also effective when exercised in small and

medium enterprises (Sinetar, 1985). This thesis addresses what SMEs can learn from corporate entrepreneurship.

1. 2 Problem statement

What can Small and Medium Enterprises (SMEs) learn from developments in corporate entrepreneurship?

1. 3 Research questions

To answer the formulated problem statement, three main research questions are formulated:

What is corporate entrepreneurship and what strategies have been developed?

What are the characteristics of entrepreneurship and innovation in SMEs?

What are the limitations of SMEs towards organizational learning?

1. 4 Relevance

This thesis is of academic relevance, because it provides insight into the value corporate entrepreneurship can add to SME's. The insights of this research are also of managerial relevance, because corporate managers can benefit from the insights into the effects of corporate entrepreneurship and what value these can add for SME's. This information can guide managers in making important decisions on the subject of innovation and strategic renewal. Corporate Entrepreneurship can in this case be used as a tool to set organizational strategies.

1. 5 Research design and data collection

The specific method that has been used to tackle the problem is a literature review. Many articles and journals are used to analyze this. This thesis relies on secondary data from available literature. To collect reliable and useful data, the databases and search engines of the Tilburg University have been used, for example ABI/Inform Global and Web of Science.

Corporate Entrepreneurship, innovation (capability) and SME's are the key concepts in this search for relevant literature. Besides these concepts, forms of corporate entrepreneurship, like intrapreneurship have been used to find data.

1. 6 Overview of the chapters

The thesis consists of five chapters, in which the several concepts and relationships are defined and researched. Chapter 2 focuses on the first research question: “ What is corporate entrepreneurship and what strategies have been developed?” The third chapter discusses what the characteristics of entrepreneurship and innovation are in SME's. The fourth chapter describes the limitations of SMEs towards organizational learning. The last chapter provides an answer to the research question, a conclusion, discussion and academic and practical recommendations. It addresses the question in what way can corporate entrepreneurship add value to the (innovation) processes of SME's.

Chapter 2: What is corporate entrepreneurship and what strategies have been developed?

2. 1 Introduction

In this section the literature on corporate entrepreneurship is reviewed, providing insights into the definitions and forms of the concept, as well as comparing and contrasting how these are dealt with in the literature.

2. 2 Defining corporate entrepreneurship

In the literature seems to be a general consensus on the definition of the concept of corporate entrepreneurship. Ginsberg and Hay state that “ corporate entrepreneurship is one that generates and exploits new technologies, products, or businesses under the corporate umbrella of an established firm.” (Ginsberg & Hay, 1994, p. 382). In this view, corporate entrepreneurship can speed up processes inside the company and helps to invent and commercialize innovative products or services.

Wolcott & Lippitz support this statement, they state that “ Corporate entrepreneurship is the process by which teams within an established company conceive, foster, launch and manage a new business that is distinct from the parent company but leverages the parent’s assets, market position, capabilities or other resources.” (Wolcott & Lippitz, 2007, p. 75). According to this definition of corporate entrepreneurship, corporate entrepreneurship often involves internal partners. The resources of the parent company and the internal teams of the company are usually managing the projects (Wolcott & Lippitz, 2007). According to Wolcott and Lippitz (2007) corporate entrepreneurship is also more than the development of new products; it also implies innovations to existing products or brands. Scott, Rosa and Klandt

(1998), as described by Kenney and Mujtaba (2007), define the concept corporate entrepreneurship as the process of stimulating innovative ideas and processes. The common goal of the concept is creating wealth. This definition differs from the other two definitions above in the sense that it doesn't mention the protection of an established firm as a characteristic of corporate entrepreneurship.

In contrast, Thornberry (2001) approaches corporate entrepreneurship from another viewpoint: he says that we need to define an entrepreneur in order to come- up with an adequate definition of corporate entrepreneurship. In his viewpoint an entrepreneur is an individual that is able to identify, shape and develop new opportunities and can turn these opportunities into new business or new ideas. Covin and Miles (1999) highlight the importance of the characteristic innovativeness in approaching entrepreneurship. He mentions that innovation was the single common theme underlying all forms of corporate entrepreneurship. According to Ginsberg and Hay (1994) the concept of corporate entrepreneurship is namely effective when a company has to deal with rapidly changing environments. In these environments it is often difficult to predict what will happen in the future. Thornberry (2001) provides a solution to deal with the changing environments: companies can prepare for the unexpected by building opportunity-focused organizations. In this way the companies is able to capture new business opportunities by the resources and people available.

To conclude, there is a general consensus in the literature about the meaning of the concept of corporate entrepreneurship. Corporate

entrepreneurship is an innovative way to create new products, technologies or business. Thus, it is about the creation of something new.

2.3 Forms of corporate entrepreneurship

According to the literature of Thornberry (2001) there are four different forms of corporate entrepreneurship: corporate venturing, intrapreneuring, organizational transformation and industry rule bending. These four forms of corporate entrepreneurship are explained below.

2.3.1. Corporate venturing

Corporate venturing is about the creation of a new business inside the established firm, with the focus on a new product or market opportunity (Thornberry, 2001). The concept of corporate venturing is often used with the goal of generating new revenue and creating value for companies' shareholders (Narayanan, Yi Yang & Zahra, 2009). Kuratko, Covin and Garrett (2009) define an internal corporate venture as an entrepreneurial initiative that is originated within the corporate structure and is created with the goal of creating a new business for the organization. In figure 1 is indicated in the grey areas what corporate venturing is. According to this figure corporate venturing is about entering new markets with new or current products or launching new products in existing or new markets (Morris, Kuratko & Covin, 2008). However, they also highlight that corporate venturing brings along some culture problems between the established and new company.

Figure 1: Umbrella of corporate venturing (Morris et al., 2008, p. 83)

2. 3. 2. Intrapreneuring

There is a general consensus in the literature about the meaning of intrapreneuring. Intrapreneuring can be seen as the exercise of entrepreneurship, but within a large company (Wickham, 2006). In this view, the role of an intrapreneur can be compared with the role of an entrepreneur. Hereby, it is very important to create a balance between allowing him the freedom to make his own decisions and while working between the strategic boundaries of the firm (Wickham, 2006). Mostly some current managers are denoted to work as intrapreneurs in order to identify new business opportunities, because they often already possess entrepreneurial competences (Thornberry, 2001). These individuals form entrepreneurial groups and try to persuade others to reproduce their behavior. In this way the intrapreneurs hope to create new corporate resources (Stopford & Badenfuller, 1994). To create successful intrapreneurship, top management of companies has to ensure that managers (intrapreneurs) feel supported by them when searching for new innovation opportunities. Otherwise intrapreneurship will not be effective (Kuratko, Montagno & Hornsby, 1990). Besides that, management has to take care that they provide intrapreneurs enough freedom to work on the things they like with sufficient resources and failing opportunities (Duncan, Ginter, Rucks & Jacobs, 1988).

2. 3. 3. Organizational transformation

According to Stopford and Badenfuller, “ organizational renewal is a more expansive notion of a complete business (legally or economically defined) altering its resource pattern to achieve better and sustainable overall

economic performance”. (Stopford & Badenfuller, 1994, p. 522). As readable in the quotation above, the goal of organizational renewal or transformation is often to improve a firm’s performance. Examples of organizational transformation forms are de-layering, cost cutting and downsizing (Thornberry, 2001). Beer, Eisenstat and Spector (1990) have indicated what differentiates a successful transformation process from a less successful revitalization. It is not advisable to change the organizational structure of a company neither the human resource policy, but managers have to start with revitalizing small operations to be effective in the organizational transformation process. To make the transformation successful, Barr, Stimpert and Huff (1992) argue that the involvement of top management is very important when transforming the organization; top management should make timely adjustments in their business models in order to cope optimally with changing environments. Besides that, Wickham (2006) argues that a flexible organization is of advantageous when transforming a company.

Organizational transformation is not about the creation of a new business. However, it still is a form of corporate entrepreneurship because it is about the creation of something new; a transformed organization. An example of such an innovation is business model innovation, which seems to be as important as the creation of new products and services. Business model innovation ensures that companies can more easily capture growth opportunities (Pohle & Chapman, 2006).

2. 3. 4. Industry Rule- Bending

Little attention has been paid in the literature on this form of corporate entrepreneurship. Just a few companies have tried to create new

opportunities by changing the industry (Badenfuller & Stopford, 1992). The form industry rule-bending is a sort of transformation that focuses on changing the rules in the industry in which the company is engaged to create new opportunities in the field of entrepreneurship and innovation (Thornberry, 2001). Stopford and Baden-Fuller (1994) also label this form of corporate entrepreneurship as frame-breaking change, because not only the enterprise itself has to be transformed, but also its industry. Changing the industry creates opportunities for growth and innovation (Pohle & Chapman, 2006). In agreement with this, Wickham (2006) argues that a company can be successful by following the rules in a right way, but the company will be most successful when transforming the rules in order to let them suit the company. Results that can be created by industry rule-bending are for example high quality at low costs and speed or efficiency (Stopford & Baden-Fuller, 1994). In order to set up a successful industry rule-bending strategy, Thornberry (2001) advises to denote some managers as corporate entrepreneurs and let them search for rule-bending opportunities. Over time, this focus can be broadened towards organizational renewal.

2. 4 Corporate entrepreneurship models

According to Wolcott and Lippitz (2007) companies have four ways in which they build new organizations from within established companies. They argue that it is very important to understand that for different kinds of companies different corporate entrepreneurship strategies will be advantageous. Two dimension are identified which differentiate the way in which companies approach corporate entrepreneurship, namely organizational ownership and resource authority. The person responsible for ownership and new business

creation and the financial resources are significant influencers of the way in which corporate entrepreneurship is exercised. In figure 2, a short explanation is given of the four business models of corporate entrepreneurship.

Figure 2: Corporate entrepreneurship models (Wolcott & Lippitz, 2007, p. 77)

A corporate entrepreneurship model is comparable with the business model of a company. Both must be adjusted over time due to different needs in the market, changing environments and growth paths (Wolcott & Lippitz, 2007). Business model innovation enables a company to differentiate itself from the competition and create sustainable competitive advantage. According to Pohle and Chapman (2006) the most beneficial effects of business model innovation are cost reduction and a more flexible organization. Business model innovation facilitates companies in grasping the growth opportunities.

2. 5 Conclusion

To conclude, corporate entrepreneurship is described by various authors as the process of creating new businesses, products, brands or technologies under the corporate umbrella of the established firm (Wolcott & Lippitz, 2007; Ginsberg & Hay, 1994; Kenney and Mujtaba, 2007). Corporate entrepreneurship is a broad concept which is not purely about creating new businesses or products – corporate venturing – as many people think. Acting in an entrepreneurial way and being innovative are the key elements of the concept. The concept of corporate entrepreneurship is namely advantageous when dealing with rapidly changing environments (Ginsberg & Hay, 1994).

As has been discussed, the concept of corporate entrepreneurship has been divided into four forms; corporate venturing, intrapreneuring, organizational transformation and industry rule-bending. All these four forms have their own characteristics.

Furthermore, Wolcott and Lippitz (2007) came up with four corporate entrepreneurship models; the enabler, producer, opportunist and advocate model. Whether these models are advantageous for companies strongly depends on the sort of company and its strategic direction. The four models are characterized regarding their resource authority and organizational ownership. The opportunist model seems to be the most useful model for SMEs, since it is characterized by ad hoc resource authority. In order to indicate the skillfulness of corporate entrepreneurship forms and models for SMEs, insight is needed into the characteristics regarding innovation and entrepreneurship in SMEs. These characteristics will be discussed in the next chapter.

us ben er niet bij.. Chapter 3: What are the characteristics of entrepreneurship and innovation in SMEs?

3. 1 Introduction

In this chapter entrepreneurship and innovation in SMEs is characterized. First, an explanation of entrepreneurship has been given. Later, entrepreneurship and innovation are characterized by using mainly the framework of Hausman (2005) which indicate determinants of innovation in SMEs. This model is discussed and compared with literary articles in the research area. Besides these models, important characteristics of

entrepreneurship in SMEs are discussed, such as growth and financial capital.

3. 2 Defining entrepreneurship

Different authors give different definitions of the concept of entrepreneurship. Schumpeter (1934) argues that the concept has a positive influence on the economy. The essence of this process is innovation, in which innovation has been seen as everything that makes profit (Massa & Testa, 2008). This definition of innovation is connected with the market; they consider that making money refers to an improvement in products or services which leads to an increase in profit. It is argued that entrepreneurship creates value to the growth of the economy (Baumol, 2004).

However, according to Stevenson and Gumpert (1985) entrepreneurship is more than being innovative, the concept is also about being flexible, dynamic, creative, growth oriented and it is about taking risks. In his viewpoint entrepreneurship is a trait that is neither related to one type of person or organization. As discussed by Ginsberg and Hay (1994) the concept entrepreneurship can be exercised in both large and small companies, but will be mostly present in small organizations, because small companies provide better conditions for exercising entrepreneurship. According to Wickham (2006) an entrepreneur is an individual who lives and functions within a social setting. Entrepreneurs are characterized by the actions they take in order to create new wealth with their ventures.

3. 3 Entrepreneurship and innovation in SMEs

Hausman (2005) has developed the scheme below, which indicates four antecedents of innovativeness in SMEs. This model is discussed below in the subheadings as mentioned in the scheme. Besides this model, other aspects influencing the innovativeness level of SMEs are discussed, like growth and the availability of financial resources.

Figure 3: Model of small firm innovation and adoption (Hausman, 2005, p. 777)

3. 3. 1. Industry concentration

Markets become less transparent when competition is intense. Therefore it becomes more and more difficult to respond rapidly to environmental changes with intense competition. According to Hausman (2005), this can have a negative influence on the innovativeness level of SMEs. Not all markets provide the same incentives for companies to enter the market, for example it is more advantageous to enter a market in which a few firms operate (Sorescu, Chandy & Prabhu, 2003). Industries in which large companies are involved are often more innovative than other industries. Research done by Acs and Audretsch (1987) shows that entry barriers do prevent potential entrants from entering existing industries and that the level of innovation activities is negatively related to the capital- labor ratio in industries. The research also indicates that industries in which innovation is promoted are characterized by high technological opportunities.

3.3.2. Manager factors

Owners of SMEs have large influence on the strategic direction adopted by their firms and the performance achieved by setting the strategic direction (Donckels & Frohlich, 1991). O' Regan (2006) also defines leadership as an important determinant of innovation, the leaders' characteristics can significantly influence the strategic direction and organizational performance of a company. The objectives of the firm are mostly equal to the desires of the owner and this will indicate whether a firm will pursue growth or survival objectives. Not commercial considerations, but personal lifestyles are common reasons for companies who are wishing to stay small and just have the goal to survive (Birley & Westhead, 1990).

Furthermore, it is argued that the managers of SME's sometimes lack the skills and education to cope with increasingly complex organizations (Rothwell, 2001). Business managers lack the specific types of education and training that can be linked with innovation in companies (Romano, 1990). This lack of expertise can hold up companies from transforming the managers' knowledge into new products and services, and it can decrease the company's ability to respond adequately to the customers' needs (Gruner & Homburg, 2000). Innovativeness in SME's is mostly limited by the power and innovation potential of the companies' owner, because he has the decision-making authority (Verhees & Vermeulenbergh, 2004).

The view of Verhees and Vermeulenbergh (2004) is supported by a research provided by Birley and Westhead (1990) that shows a positive relationship between separated ownership and management from the original owners and the profitability of the company. According to the reviewed literature <https://assignbuster.com/concept-of-corporate-entrepreneurship/>

above, it seems that the manager often lacks the right competences and education to encourage sustainable growth in the company. Therefore, companies would profit from separate ownership, because a hired manager can complement the owner's skills and in this way the growth potential is secured. This will also enhance the profitability of the company, as mentioned in the research of Birley and Westhead (1990). However, separated ownership can also face agency problems, because of different goals of the owner and manager (Millgrom & Roberts, 1992). So, this means that it is important when having separate ownership in a company that the goals and expectations of the owners are in line. Otherwise this will cause problems with setting up strategic directions.

3.3.3. Network effects

The internal communication networks are more efficient in SMEs than in larger ones, because the networks provide SMEs a fast response towards problem solving. SMEs can easier reorganize tasks and processes and adapt to changing environments. Besides, it is also easier for SMEs to respond to rapidly changing environments due to the organizational structures of the businesses. They are less bureaucratic and have more clannish structures, which makes them able to cope with unmet customer needs (Rothwell, 2001). Although, the flexibility of SMEs means that they can easily respond to changes in the market, SMEs will be less innovative over time because they lack the external contacts which makes them less aware of innovative technologies (Hausman & Fontenot, 1999). According to Rothwell (2001) SMEs often lack the time and resources to identify and use external sources of scientific and technological expertise and advice. This business mostly

lack suitable qualified technical specialists to support research and development activities.

3. 3. 4. Tangible products

Tangible products will often be more easily adopted by SMEs than intangible products, because of the characteristics of tangible products. This speed of adaptation will be advanced when people can observe and try the products, because in this way a better insight is created into the product (Hausman, 2005).

3. 3. 5. Financial capital

According to Hausman (2005) SMEs are not pure simplifications of large firms, because SMEs lack the financial and human capital and have different governance and reward structures than large firms. This can make it more difficult for SMEs to be entrepreneurial and innovative. For example, developing a new product is a high risk activity for a small company and it requires large investments. The problem here is that SMEs can have great difficulties with attracting capital, especially risk capital (Rothwell, 2001). Large companies can spread the risk of innovation mostly over several portfolio projects. This can also influence the growth potential of the businesses, because growth often requires an investment of money.

3. 3. 6. Growth

Growth inside SMEs can vary a lot between different sorts of SMEs. Also growth is characterized differently compared to large companies.

Independent of action, the organizational structure and its management style are important indicators of the level of growth attainable in a company

(Churchill & Lewis, 1983). Moreno and Casillas (2007) conducted a research on the differences between high-growth and low-growth SMEs. They concluded that the size of a firm is an important indicator for growth: the smaller the business, the higher their ability to grow. Their research also indicated that high growth firms are often characterized by low availability of financial resources; because a lot of the money is spent on research and development in high growth SMEs. This finding fits the view of Stevenson (1983), as described by Brown, Davidsson and Wiklund (2001), which created an opportunity-based view on entrepreneurship. This view focuses on the exploitation of new opportunities. This has a negative influence on the availability of financial resources. According to Churchill and Lewis (1983) the main problems SMEs face when striving to expand are low customer acceptance, difficulties in coping with changing environments, delegation problems of the owner and a shortage of cash to do investments. Partly because of these problems SMEs are not all growth orientated. The results of a study done by Gray & Gonsalves (2002), presented in figure 4 on the next page, supports the argument that in the years 1990-1999 very few small firms in the United Kingdom were growth orientated.

Figure 4: Growth objectives of small firms in the UK (Gray & Gonsalves, 2002, p. 31)

3. 4. Conclusion

To conclude from chapter 3, the strengths of SMEs are their flexibility in responding to changing markets and their grow ability. The flexibility-advantage of SMEs is greatest when operating in markets characterized by less competition, because these markets often provide a higher level of

transparency. Besides that, SMEs have a high ability to grow, because their management structure is less complex than in large organizations; they can operate more independent. But although they have the ability to grow, many companies are not growth orientated.

However, SMEs are also characterized by some weak points. For example, SMEs are not always able to quickly respond to changing markets because they lack external contacts in comparison with large companies, which make them less aware of new trends and technologies.

Also, the owner of SMEs has a strong influence on the strategic direction of a firm. These owners often lack the right skills to be innovative or manage complex organizations. Hereby, innovativeness is limited by the character and education of the owner. SMEs could thus benefit from separated ownership. Furthermore, SMEs lack financial resources and human capital to attain a high level of innovation. For example, developing a new product is high risk activity for SMEs in comparison with large companies, because they cannot spread risks.

Chapter 4: What are the limitations of SMEs towards organizational learning?

4. 1 Introduction

In this chapter organization learning is discussed regarding SMEs. Firstly, an explanation is given of the concept of organizational learning. Secondly, organizational learning is characterized in SMEs by their advantages and limitations in comparison to large companies.

4. 2 Definition organizational learning

Different theories of organizational learning exist in the literature. Every organization learns, although they are not always aware of it. However, without learning it is impossible for an organization to exist (Kim, 1993). According to Jerez-Gomez, Cespedes-Lorente and Valle-Cabrera (2005) organizational learning begins at the individual level and is a process based on knowledge. It is about the exchange of knowledge between individuals and members of a group. Individual learning is important for organizational learning since a company exists out of many individuals. According to this author the process of organizational learning is more complex than individual learning. Organizational learning is seen as knowledge about the interrelationships of a company's actions (Kim, 1993) and it improves the quality and quantity (e. g. more sales) of a company's performance (Senge, Roberts, Ross, Smith & Kleiner, 1994).

Organizational learning is positively related to the innovation level of a company, because the innovation level strongly depends on the knowledge base of the firm (Cohen & Levinthal, 1990). According to Calanstone, Cavusgil and Zhao (2002), the amount of organizational learning is an important indicator of innovativeness, since it creates opportunities to rapidly respond to changing environments and customer needs. Huber (1991) speaks primarily about the effectiveness of organizational learning in the sense that the concept of organizational learning is only used when a company acquires knowledge that is useful for the organization. Huber (1991) summarizes his research in the following way:

More organizational learning occurs when more of the organization's components obtain this knowledge and recognize it as potentially useful

More organizational learning occurs when more and more varied interpretations are developed

More organizational learning occurs when more organizational units develop uniform comprehensions of the various interpretations (Huber, 1991, p. 90).

4.3 Limitations towards organizational learning in SMEs

It appears that little research has been done in the field of organizational learning in SMEs. Nevertheless, it has already been pointed out that organizational learning is a phenomenon present in all sorts of companies, also in SMEs. According to (Oyelaran- Oyeyinka & Lal, 2006) organizational learning is a way in which SMEs can survive in the market. Large firms seem to have a competitive advantage regarding innovation, because they possess the resources to enter capital- intensive markets and invest in specialists (Wolcott & Lippitz, 2007). However, SMEs have an advantage in highly innovative industries because of their flexibility and entrepreneurial mindset (García-Morales, Llorens-Montesa & Verdu – Jover, 2007).

In small organizations the level of organizational learning equals the individual learning capacity of the owner, where in large companies organizational learning is facilitated by different activities which stimulate the share of information and experiences (Gray & Gonsalves, 2002). It is argued that the managers of SME's sometimes lack the skills and education to cope with increasingly complex organizations (Rothwell, 2001). Nonaka (2