Corporate entrepreneurship theory

- Can we qualify Daimler strategy as entrepreneurial? If so, what are the steps taken by Daimler AG to induce or support their Corporate Entrepreneurship (CE) Strategy?
- How are corporate entrepreneurial behaviors being facilitated in Daimler's management team?
- What factors are affecting CE applied by Daimler, and how could Daimler be more entrepreneurial?

Limitation:

The thesis paper mainly focuses on Corporate Entrepreneurship theory specifically entrepreneurial transformation. Even though there are other types of Corporate Entrepreneurship types including corporate venturing, Intrapreneurship, and bringing the market inside, we discussed Corporate Entrepreneurship through the lenses of entrepreneurial transformation by excluding other types of corporate entrepreneurship. Our focus is mainly concerned in the activities inside an organization, and entrepreneurial transformation focus on these activities with a good overall view on the strategy, culture, structure, and leadership and not a single part in particular. As being one of the forefront car companies, we chose Daimler- one of the leaders in the automotive industry- as our case study. In our preliminary research, we found that Daimler AG focus on innovation and entrepreneurial activities as a crucial role in achieving sustainable growth; therefore, they fit the profile we are conducting the research about. Due to the time factor and the resources allocated to this paper, we also concluded that a study about entrepreneurial activities within organization can be best presented if we concentrate on one company rather than the whole automotive industry since our finding will be more specific, more reliable, and we will reduce the generalization of the results. As being one of the forefront car companies, we chose Daimler as our thesis subject. Furthermore, we only chose to use qualitative method rather than quantitative method due to the time factor and inability to reach a sufficient number of employees working for Daimler AG. We also analyzed Daimler entrepreneurial activities through the lenses of company perspective. Our work is mainly based on interpretation of interview made with Mark Reine, Daimler Annual report, Integrity Report, High-Tech Report and Sustainability Report.

Paper's Structure:

In chapter 2 we go through our theoretical framework. We describe the theory that we use as a knowledge foundation for our study. We map out some of the studies that are relevant for the theoretical perspective in this study. In chapter 3 we describe the methodology we have used when making our study. We describe the different choices we have made throughout the study, and motivate why we have made these choices. And we briefly present our respondent. In chapter 4 we present our respondent in more details, and we compile our empirical material that we have gathered through our conducted interviews. The information is presented respondent by respondent. In chapter 5 we evaluate the gathered empirical information and analyze it by the support of our theoretical framework.

In chapter 6 we present the conclusions drawn from the analysis of the gathered information. Here we also present the conclusions that we arrived with regarding studying CE within organizations.

Theoretical Framework

In this chapter we present our theoretical framework and the main theories that will help us answer our research questions. We present the Corporate Entrepreneurship theory, its definition, types, success factors, and dimensions This is where we accumulate a knowledge base that is necessary to fully understand the scope of the thesis paper and the logic used to conduct it. This knowledge base will support the gathering, interpreting and analyzing of our information and empirical data made in latter chapters.

Corporate Entrepreneurship

In recent years, the conditions of competition in the global environment have changed for the companies. The market is dominated by constant change, complex tasks and environmental turbulence (Rothwell, 1983 as cited in Livesay, 1995; Burns, 2008). As we mentioned earlier; knowledge, innovation and flexibility become an important resource for sustained competitive advantage. In other words, ‘ Entrepreneurship’ is the crucial factor for success or survival (Burns 2008; Czernich 2004). While small firms take the advantage of these conditions and become very successful due to their flexible structure and entrepreneurial spirit, large firms suffer more due to their mechanistic, bureaucratic and rigid structures (Burns, 2008). Many scholars research new ways for large organization and come up with many ideas. One of the solutions for companies to deal with the rigid bureaucratic structures is to induce Corporate Entrepreneurship in their structure (Dess et al., 2003). As it is mentioned earlier, while CEOs are concerned about profitable organic growth, they find corporate entrepreneurship or creating a new business as one of the solution (Lippitz & Wolcott, 2007). As corporate entrepreneurship is becoming popular, research on CE has grown too (Dess et al., 2003). According to Cunningham and Lischeron (1991), CE can be seen as a school within entrepreneurship theory. Since there is no generally accepted definition of entrepreneurship (Swedberg, 2003), the definition of corporate entrepreneurship also suffers from this problem.

In the next sections, we are going to define and explain Corporate Entrepreneurship from different perspectives of many authors. We will present the different point of views on Corporate Entrepreneurship in regards to its definitions, different types, and success factors that affect it.

Definition of Corporate Entrepreneurship (CE):

As it is mentioned above, since there is no generally accepted definition of corporate Entrepreneurship (CE), many scholars define CE differently. According to Sharma and Chrisman (1999 in Dess et al, 2003, p. 352), " Corporate Entrepreneurship is the process whereby an individual or group of individuals, in association with an existing organization, create a new organization, or instigate renewal or innovation within that organization". Dess et al. (1999) also see it as two types of phenomena and processes: while one is about creating a new business within existing organizations through internal innovation or joint ventures, alliances, the second one is about the transformation of organization through strategic renewal. Burns (2008, p. 12) defines CE as a process which encourages CE in every level of organization; corporate, division, business unit etc. Lippitz and Wolcott (2007, p. 75) define it as " a process in which teams within an establish organization create a new business which is distinct from parent company but leverages the parent's asset, market positions, capabilities or other resources.” Also according to Vesper (as cited in Hornsby & Kuratko, 1999, p. 29), “ Corporate Entrepreneurship is a new strategic dimension, initiative from below and autonomous business creation.” These different definitions show that the meaning of Corporate Entrepreneurship (CE) is still ambiguous. CE can be seen as an evolving phenomenon which is still being researched by many researchers (Burns, 2008; Zahra, 1991). In order to fully understand corporate entrepreneurship, different types of CE must be analyzed. The next section will show the difference between these types, and which is more relevant to our research. 17

Types of Corporate Entrepreneurship:

Scholars define and classify CE into many different types. These views cover a wide range. According to Birkinshaw (2003 in Burns, 2008, p. 13-14) and Thornberry (2001 in Kenney & Mutjuba, 2007, p. 75-6), there are four types of corporate entrepreneurship:

- Corporate Venturing: It is the process of starting new ventures related to core business through investing in smaller innovative firms and different forms of corporate venturing units by larger firms
- Intrapreneurship: It is about the identification of employees who have entrepreneurial skills and it focuses on encouraging these employees to act in an entrepreneurial way within large organizations.
- Bring the market inside: This dimension takes a marketing approach to encourage entrepreneurial behavior by changing structure.
- Entrepreneurial Transformation: According to Burns (2008, p. 14), it is about the adaptation of organizational structure, and culture to changing environment and create a new organizational environment to

encourage entrepreneurial activity. He also mentioned that according to this dimension, the individual behavior in the organization is influenced by leadership, strategy, systems, structures and culture.

Moreover, Covin and Miles (1999 in Dess et al., 2003) identify four types of CE. They offer structurally complex firms to use simultaneously one or more forms of CE in different parts of organization. The first one is sustained regeneration, which is stimulated by the firm’s culture, processes and structures to create new products in its existing market and also to enter with existing product into new markets. Here, companies know their product’s life cycle and they create strategies according to competitive expectations. The second type of CE is organizational rejuvenation. It is more about process and administrative innovations rather than product innovations. It enables organizations to improve the firm’s ability to execute strategies. It concerns about inducing entrepreneurship through organizational procedures and standards. Strategic renewal, which is the third one, is about how to change strategies to compete differently. While organizational rejuvenation is about the organization itself, strategic renewal is about both organization and environment. It consists of the ways to exploit the opportunities more profitably and how to explore new ideas in these changing circumstances. Domain Redefinition focuses on creating a new product market that competitors have not discovered yet or are not successful in that market. Domain redefinition aims to have first mover advantage in that new market. We find the classifications of Birkinshaw (2003 in Burns, 2008, p. 13-14) and Thornberry (2001 in Kenney & Mutjuba, 2007, p. 75-6), and Covin and Miles (1999 in Dess et al., 2003) interesting because we can see that to a certain extent they are interrelated. Burns (2008) argues that corporate venturing and Intrapreneurship are seen as techniques that bring the market inside and can help stimulating the entrepreneurial transformation since it covers the whole aspects of the organization. Furthermore, by comparing entrepreneurial transformation to the types mentioned by Covin and Miles (1999 in Dess et al., 2003), it is observable that these types to some extent are also contained within the entrepreneurial transformation, because they cover aspects related to structure, culture, environment, and strategy which is what entrepreneurial transformation is about. Before focusing on the aspects affecting entrepreneurial transformation, the dimensions that foster CE must be mentioned. In the next section, the success factors of Corporate Entrepreneurship are going to be explained.

The Success Factors of Corporate Entrepreneurship:

According to Dess and Lumpkin (2005 in Kenney and Mujtaba, 2007), there are five dimensions which shows that organization is entrepreneurial-oriented: The first dimension is autonomy indicating that employees must be empowered and encouraged to find the innovative products or new internal process. Employees must be supported to create innovative ideas. The second dimension is innovativeness. Organization must invest in research and development. The third dimension is pro-activeness which is related with organization’s willingness of being different by exploiting opportunities. Company must be future-oriented. The fourth dimension is competitive aggressiveness. The organization must both willingly and eagerly engage in a competition and conduct strategies that exploit the opportunities better than other competitors. The last dimension is risk taking which is one of the most important dimensions for Corporate Entrepreneurship. Company must be aware of business, financial and professional risks associated with CE (2005 in Kenney and Mujtaba, 2007, p. 76). These dimensions stated earlier by Dess and Lumpkin (2005 in Kenney and Mujtaba, 2007) support and slightly similar to the success factors Abraham talks about (1997 in Kenney and Mujtaba, 2007; Sathe, 1985 in Kuratko and Hornsby, 1999). Nonetheless, they overlook the factors of reward and reinforcement, and time availability mentioned by Abraham (1997 in Kenney and Mujtaba, 2007). According to Abraham, there are four important corporate entrepreneurship success factors that must exist within an organization (1997 in Kenney and Mujtaba, 2007; Sathe, 1985 in Kuratko and Hornsby, 1999).

The first factor is management support which is about promoting entrepreneurship in the organization. The management support consists of championing the innovative ideas, providing necessary resources, transparency within organization, being a coach or mentor rather than being a manager. The second factor is autonomy which points out that employees are ready to take risks and failure is tolerated by management. This factor must be strengthened by the organizational structure which facilitates the implementation of ideas. The third factor is reward and reinforcement. The effective reward system will enhance entrepreneurial behavior in organization and help employees to take risks. Both extrinsic (monetary) and intrinsic (recognition) rewards motivate employees to be more entrepreneurial. The last factor is time availability. There must be flexible time constraints which let employees to deal with a long term problem. (Echols and Neck, 1998; Kuratko et al. 1999) As a whole, it can be seen that corporate entrepreneurship success factors are highly related with entrepreneurial transformation mentioned in the types of corporate entrepreneurship. It can be understood that management support is highly related with leadership and culture (being a coach or mentor rather than being a manager) and structure (championing the innovative ideas, providing necessary resources, transparency within organization); autonomy is also related with structure; reward and reinforcement system can be stipulated by organizational culture, structure and leadership while time availability can be induced by both leadership and organizational culture. In the next section, the factors of entrepreneurial transformation are going to be explained in detail.

Entrepreneurial Transformation within organizations:

As it is mentioned above; in order to have successful Corporate Entrepreneurship (CE), large organizations must add the success factors of CE to their whole system which is related with entrepreneurial transformation. According to Burns (2008, p. 18), entrepreneurial transformation is about adaptation of entrepreneurship to large firms by changing their structure, strategy, system, leadership and culture to cope with change and innovation. He identifies strategy, leadership and management, culture, and structure as necessary elements to achieve entrepreneurial transformation. These elements are:

- Entrepreneurial Transformation
- Leadership
- & Management
- Organizatioal Culture

- Organizational Structure
- Corporate Strategy
- Institutional Field

In addition to these elements, institutional field can be seen as one of the element that affects corporate entrepreneurship strategy because while companies are defining their strategies, they have to think both company and company’s environment that company exists in. Figure 4 summarizes these elements and shows how they influence the Corporate Entrepreneurship strategy within an organization.

As it is shown in the figure above, there are five elements that influence the entrepreneurial transformation within organization; Leadership and Management, Organizational Culture, Organizational Structure, Corporate Strategy, and Institutional Field. All these elements are strongly interrelated and have a strong influence on each other. In order for a successful entrepreneurial transformation within an organization, all the elements must be taken in consideration, simply because they support each other. Having a weak link in the entrepreneurial transformation elements will lead for an ineffective and inefficient entrepreneurial transformation within any organization. Leader and management set the road for the transformation and eliminate the dysfunctions within the organization which prevent entrepreneurial behaviors (Burns, 2008; Kuratko and Hornsby 1999), and the culture, structure and institutional field is what support this transformation. The strategy is what maintain and foster the success of the transformation in the later stages. The figure 4 shows an intertwined relationship where all the elements are connected in a way and not as a procedural process. In next sections, the five elements are going to be explained one by one in further details.

Leadership & Management

One of the aspects that affect CE is management and leadership. Burns (2008) discusses the relationship between management and leadership. He states that although they go hand in hand with respect to skills and competencies, there are still some critical differences that could be addressed; Management could be seen as the mechanics of the organization, while its leadership functions as the brains. Burns (2008) emphasizes mainly on the roles of each and state that Management is concerned with execution and handling of complex organizational tasks and processes mainly concerned with efficiency and effectiveness. Compare to management; leadership is concerned with broader principles related to communication, motivation, and setting goals and direction and particularly change.

According to Kuratko and Hornsby (1999), the new corporate revolution represents an appreciation for a desire to develop entrepreneurial leadership within the organization structure; in other words in-house entrepreneuring development, or face stagnation, loss of personnel, and decline. In order to do so, effective entrepreneurial leaders strive to construct, define and gain commitment to values and beliefs they try to integrate in the organization they work in. These shared values and beliefs incorporated within the vision and mission of an organization are what make the essence of its culture that binds the organization all together (Burns 2008). The shared vision and values are the desired future state that the organization is striving to achieve thus its acts as a powerful and effective motivational tool. However, in order to create an entrepreneurial culture based on motivation and strive to achievements, entrepreneurial leaders need more than just a promising vision (Burns 2008). They need to create a management team that enforce this entrepreneurial culture; a flexible adaptable team that is able to operate under extreme changing environments and to handle risk and uncertainty. Moreover, Kuratko and Hornsby (1999) emphasize on this topic and state that specific elements for entrepreneurial leaders need to be recognized first for a corporate entrepreneurship strategy to be induced effectively and efficiently. These elements are:

- Developing the Vision.
- Developing Innovation.
- Developing Venture Teams.
- Structuring for an Entrepreneurial Climate.

Kuratko and Hornsby (1999) also emphasize on the vision as the first element needed to induce an effective and efficient corporate entrepreneurship strategy. A shared vision that is supported by top management that reinforces innovation and entrepreneurship is what the second element needs to be achieved. Without a vision that is supported by the leadership in the organization, innovation is not achievable. Moreover, the third element is venture team similar to what Burns (2008) defines as management teams who have the potential for stimulating innovation and creativity within the organization. The final and most critical element that Burns didn’t emphasize on is structuring for an entrepreneurial climate. And what Kuratko and Hornsby (1999) mean by the entrepreneurial climate is the innovative environment that allows new ideas to flourish.

In order to deeply discuss the role of leadership in creating the entrepreneurial climate, the transformational leadership theory needs to be discussed briefly. According to the transformational leadership theory, transformational leaders' behavior does not depend on a traditional exchange relationship between leader and follower (Bass, 1990). Their behavior is based on personal value systems that are not negotiable; they modify their followers' goals and aspirations to be aligned with their goals by demonstrating: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass, 1990). Bass states that transformational leadership is needed to " broaden and elevate the interests of … employees, generate awareness and acceptance of the purposes and missions of the organization, and stir the employees to look beyond their own self-interests for the good of the overall entity" (1990, p. 19). Between the four elements used by transformational leaders to influence followers bass discussed, we are interested in the inspirational motivation which mean the ability to develop and communicate a convincing and attractive future vision. This vision is not only materially based but offers challenges and meanings (Bass, 1990 in Felfe, 2004). Humphreys (2005) also emphasizes the role of transformational leadership and state that it is more suitable for a dynamic external environment, where employees are empowered with greater responsibility and encouraged to innovate, initiative and take risk. Comparing Bass (1990), Kuratko and Hornsby (1999), and Burns (2008) brings us to the point that it is observable that they all agree on the importance of developing a shared future vision that align the goals and objectives of the leadership with all parts of the organization. They all emphasize on the influential role it has in stimulating the entrepreneurial strategy needed to flatten the way for flexibility and adaptability needed for innovation especially in a dramatic changing business environment. Furthermore; the leadership style and the level of commitment and support they choose to employ defines to what level the entrepreneurial climate could be achieved. However, according to Burns (2008, p. 105) quoting Richard Branson, “ there is no single best leadership style”. It always depends on many different factors such as the leader, group, task, and situation, or even the context they are in; similar to the ideology the contingency theory discuss (Burns, 2008). The theory emphasizes that there is no best way to mange or lead in an organization. One of the examples Burns (2008) discusses is the managerial grid which was developed by Blake and Mouton. This model classifies the managerial styles upon leadership concern toward task compared to the concern for people. Figure 5 summarize and explains these styles. It classifies them into five types: Impoverished Management, Country club Management, Middle of the road Management, Team management, and Authority-Compliance Management.

Figure 5: The Leadership Grid (Source: created by the authors, adapted from: Blake and Mouton, 1978 in Burns, 2008) Nevertheless; if the organization desires to stay entrepreneurial, certain styles will not be appropriate such as autocratic or dictatorial- where the leadership dictate what is needed to be done without given any kind or decision making authority to the management team or impoverished management that has low concern for both the task and the group, because it is hardly leadership at all. On the other hand; the organization must encourage the consultative style- where the leadership shares its high level of authority with the management team

supervising the decision making process, and if the number of employees in an organization increase, concern for the group must increase and move toward the group and thus team management.

Burns also discusses how managers behave in situations involving conflict in order to obtain the best effective and suitable results (2008). Based on the Thomas-Kilman Conflict modes questionnaire, behavior can be classified under two important dimensions which are Assertiveness – the extent to which individuals satisfy their own needs, and Co- operativeness – the extent they attempt to satisfy the needs of others. Thomas and Kilman comes up with five behavioral classifications that individuals can be indentified with: Competing, Accommodating, Avoiding, Collaborating, and Compromising. Figure 6 explains these classifications in more details. (Burns, 2008, p. 99)

Figure 6: Thomas-Kilmann Conflict Modes (Cited from Burns, pg. 99, 2008, adapted from: Thomas and Kilmann, 1975) Furthermore; according to the matrix provided above on how to behave in situations involving conflict, each style has its advantages and disadvantages and can be effective in different situations. However management teams tend always try to resolve conflict through collaborating or compromising approaches. Collaborating deals with finding alternatives that meet everyone’s concerns, and compromising the “ in between” diplomatic route (Burns, 2008, p. 99). Both approaches are assertive and co-operative, thus using informal influence to get their ideology implemented within the organization and its culture. 2. 2. 2. Organizational Culture:

Organizational culture is another important aspect that affects corporate entrepreneurship. According to Sackmann (1991 in Dimitratos and Plakoyiannaki, 2003), many researches see organizational culture as cognitive framework which consists of values, beliefs, norms, meaning systems, patterns of thoughts. Organizational culture influences the expectation of organizational members to each other and their expectations of external interaction with suppliers, customers, and external environment (Ireland, Hitt, & Sirmon, 2003). Parboteaah (2000 in Kenney et al., 2007) claims that developing and nurturing an entrepreneurial culture will help a company to find innovative solutions and sustain strategic competitive advantages, that is why Dess et al. (2005 in Kenney et al., 2007) recommend companies to check their culture if they have an entrepreneurial orientation. According to Ireland et al. (2003, p. 970), an effective entrepreneurial culture must dedicate itself to ' the simultaneous importance of opportunity-seeking behavior and advantage-seeking behaviors', culture must promote innovative ideas and learning, encourage risk- taking activities while accepting the failure, and must be open to continuous change.

Furthermore, the dimensions of culture created by Hofstede help to characterize an entrepreneurial culture in the organization (Burns, 2008). First dimension is individuality versus collectivism. It is about the level of preference to work as individuals or groups. According to Burns (2008), entrepreneurial culture must be based on collectivism rather than individuality in larger organizations. The establishment of relationships and networks within the organization will result in a strong sense of in-groups with the feeling of competition against out-groups (competitors). The second dimension is power distance, which is about “ the degree of in equality among the people that community is willing to accept” (Burns, 2008, p. 116). Hofstede (1981 in Burns, 2008) claims that while lower power distance encourages the egalitarianism that stimulates flat structure, open relations and unrestricted information flow, higher power distance support hierarchical structure. Burns (2008) indicates entrepreneurial culture involves lower power distance. The third dimension is uncertainty avoidance, which is about the degree of people’s tolerance for complexity and uncertainty. While higher uncertainty avoidance stresses rules and procedures, rewards the compliance to these roles, lower uncertainty avoidance tolerates complexity, encourages flexibility, risk taking, initiative decision-making. Burns (2008) claims that low uncertainty avoidance is suitable for CE. The final dimension is masculinity and femininity. While masculinity is based on financial and material achievements and competition, femininity focuses on relationships and cooperation. According to Burns (2008), CE must find a balance between masculinity and femininity. They have to establish one culture that focuses on achievements against competitors through networks and cooperation within organization. On the other hand, Beer, Eisenstat and Spector (1990) claim that while corporate culture is one of the aspects that help to establish corporate entrepreneurship in large organizations, Cultural Revolution by itself is not enough to achieve successful revitalization. The management must analyze every field of organization including its structure, strategy, leadership because culture correlates every field of organization. Leaders have to find out the sources of the problem and they have to make changes where it is necessary.

Organizational Structure

One of the other factors that stimulate entrepreneurship in a company is the organizational structure. Large companies have realized that to survive in today's conditions which are rapid and sociological changes, they have to create a structure that stimulates creativity and innovations (Sapolsky, 1967 in Livesay, 1995; Sinetar, 1985 in Livesay, 1995; Beer et al., 1990; Burns, 2008). However Sapolsky (1967 in Livesay, 1995) and Burns (2008) claim that there are no basic guidelines about one perfect structure that is suitable for every organization. According to Echols and Neck (1998), it is necessary to redesign structure to foster corporate entrepreneurship. Managers must structure organization as flat as possible and support it with entrepreneurial culture. New structure must support entrepreneurial behaviors. They analyzed three specific categories of entrepreneurial behavior which must have been addressed by management while changing structure. The first category is detection of opportunities which requires transparency in the organization, external and internal networks and easy access to firm's information. The second category is opportunity facilitation which demands supportively competition among firms and support from managers as coaches or mentors. Final category is the motivation to pursue opportunity. Managers must consider rewarding their employees for their entrepreneurial behaviors. (Echols et al., 1998, p. 40-41)

The most suitable structure depends on the nature of the organizations, the strategies employed, the task that they operate, the environment that they exist in and the size (Burns, 2008). Size is one of the most important factors for defining the structure. In recent years, as entrepreneurship becomes an important key success factor for the business, small firms gain a competitive advantage over large firms because of their flexible structure which enables better communication, greater delegation of authority and faster decision making. Nowadays, large firms are downsizing or deconstructing themselves to be entrepreneurial (which is the breaking of the organization down into smaller units) (Burns, 2008, p. 137). The following trends are indicated by Pettigrew and Fenton (2000 in Burns, 2008, p. 138): decentralizing, de-layering, outsourcing, down-scoping, using project forms of organizing, developing strategic alliances, communicating horizontally as well as vertically, investing in IT, and the application of new HR policies. Furthermore, organizational structure is obliged to change as the organization grows (Greiner, 1972 in Burns, 2008; Morris, Allen, Schindehutte & Avila, 2006). But the traditional large firm structures are not suitable in this complex turbulent