ESADE MBA Business Review

Analyzing & Showcasing the Thoughts of Tomorrow's Business Leaders

Corporate Entrepreneurship

AN INSIGHT INTO ORGANIZATIONAL STRUCTURES AND BEHAVIORS THAT ENCOURAGE ENTREPRENEURIAL CULTURE

2004

EMBR04

ESADE MBA BUSINESS REVIEW

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Welcome Letter

It gives us great pleasure to welcome you to the second edition of the annual ESADE MBA Business Review (EMBR).

EMBR has been recognised by Business Week (October 18, 2004) as the "first-ever journal that publishes [MBA] student research from around the world". Three distinguishing characteristics make this publication unique: its innovative nature, its global reach and the fact that it is thoroughly promoted and led by a group of enthusiastic ESADE MBA students.

At ESADE we try to nurture innovation and entrepreneurship, and the EMBR is a great reflection of these values. Two years ago, when we held our Christmas party, an enterprising 1st Year student from India came up to us and spoke passionately about an innovative idea he was working on; an idea to analyze and showcase the thoughts, values and beliefs of tomorrow's business leaders– that is, today's MBA students. That talk was the kick off of the EMBR: a project born global.

The topic of this second annual issue is Corporate Entrepreneurship. Almost 200 teams from 42 international business schools located in 17 countries have participated in this competition. What the reader has in his/her hands is a selection of the best papers presented.

The ESADE MBA Business Review is an ambitious yet humble attempt to showcase to the world the thinking of MBA students globally, and we hope that you will enjoy reading it as much as our students enjoyed working on it during the last ten months.

Xavier Mendoza
Dean
Executive Director

Gloria Batllori
Executive Director
ESADE MBA programs

Sergi Tomàs
ESADE MBA Business Review
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'Welcome to the second edition of the ESADE MBA Business Review'

I still remember that evening in Barcelona a few weeks before I began my MBA studies at ESADE. Some of the new candidates who happened to be around had been invited by the welcoming committee to a dinner with some Second Year students. During the dinner the conversation turned to the various clubs and activities at ESADE, and a chap a few seats away from me caught my attention with a project that sounded particularly interesting – one in which MBA students from all over the world would voice their thoughts, values and beliefs on an issue currently facing the business community. That person was Darpan Sanghvi, the founder of an extraordinary initiative, now the ESADE MBA Business Review, and soon-to-be my collaborator on the second edition of the project. After attending the EMBR's inaugural event, I was sure this was something I wanted to be a part of.
The project began last September. After lengthy consideration of scores of subjects, the EMBR team, together with students and teachers, plumped for Corporate Entrepreneurship (CE) as the topic for the 2004 edition. It was an inspired choice because CE is a burning issue of global relevance. Professional and scholarly interest in Corporate Entrepreneurship stems from the quest to harness innovation and creativity, both factors of vital importance in today's competitive business environment. We felt that focusing future business leaders' attention on this topic would provide a unique opportunity to gain insights in this field. The response was overwhelming - over 400 MBA students representing 42 business schools accepted our invitation to take part in the second edition of the ESADE MBA Business Review.
We were particularly struck by the depth of insight and quality of the papers submitted. This made the evaluation panel's job of selecting papers for publication a particularly hard one. I would personally like to draw attention to the brilliant and diverse range of ideas on how corporations should tackle CE. These included the need for decentralized organizations allowing staff to make decisions, and long-term reward and evaluation systems. Other insights included the belief that visionary leadership and management support for risk-taking are key factors to success in promoting entrepreneurial behaviour. Others drew attention to the need to link corporate culture and strategy in a vision that promotes innovation as fundamental for value creation.

Ubuntu, a Zulu word for interdependence, was cited in a paper submitted from South Africa. It literally means "people are people because of others", a concept which, when considered in the context of modern corporations, reflects the need to create innovative team-based structures, especially when attempting to foster Corporate Entrepreneurship. The presence of a rich variety of concepts, such as "Ubuntu" highlights the rewards of conducting a global journal that is capable of capturing a diversity of ideas that would otherwise be lost. Accordingly, I am sure you find the Top 10 Papers published in this journal very enlightening.

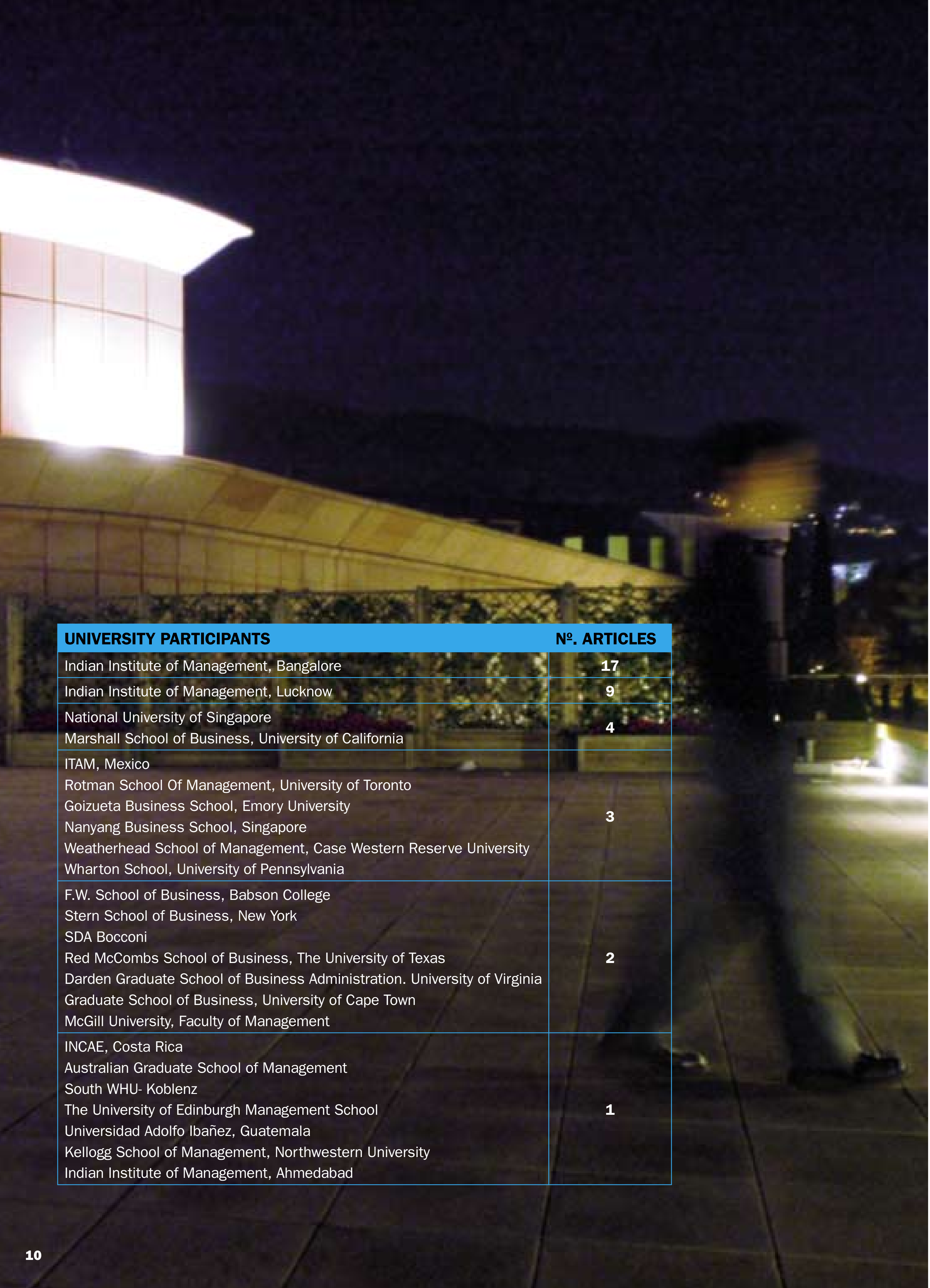
Finally, on behalf of the EMBR team, I would like to take this opportunity to thank ESADE management, teaching staff, and all those who contributed to the project's success. It has been a long and challenging first year in the MBA programme but I can honestly say that it was worth every minute we dedicated to the EMBR. The project has made giant strides over the last year and it is likely that it will remain a lively forum for MBA students for years to come.

01

“Entrepreneurship is the successful implementation of creative ideas that results in new customer values”

Jay Rao, Associate Professor, Management Division, Babson College

CORPORATE ENTREPRENEURSHIP



UNIVERSITY PARTICIPANTS	Nº. ARTICLES
Indian Institute of Management, Bangalore	17
Indian Institute of Management, Lucknow	9
National University of Singapore Marshall School of Business, University of California	4
ITAM, Mexico Rotman School Of Management, University of Toronto Goizueta Business School, Emory University Nanyang Business School, Singapore Weatherhead School of Management, Case Western Reserve University Wharton School, University of Pennsylvania	3
F.W. School of Business, Babson College Stern School of Business, New York SDA Bocconi Red McCombs School of Business, The University of Texas Darden Graduate School of Business Administration. University of Virginia Graduate School of Business, University of Cape Town McGill University, Faculty of Management	2
INCAE, Costa Rica Australian Graduate School of Management South WHU- Koblenz The University of Edinburgh Management School Universidad Adolfo Ibañez, Guatemala Kellogg School of Management, Northwestern University Indian Institute of Management, Ahmedabad	1

Editorial

BY **EUGÈNIA BIETO, DIRECTOR OF ENTREPRENEURSHIP CENTER OF ESADE**

The magazine MBA Business Review, an initiative promoted by the MBA 2003-04 students, chose the subject of Corporate Entrepreneurship for its 2nd issue. The editors, aware that this is a phenomenon that can be analyzed from several perspectives, made the following Call for Papers:

Corporate Entrepreneurship. An insight to the structures and behaviours in organizations that encourage an internal entrepreneurial culture as a key competitive advantage.

Corporate Entrepreneurship can be considered as the set of activities that a company encompasses to create an entrepreneurial culture in order to foster the entrepreneurial behaviour of employees. This phenomenon, described in the literature of strategy, innovation, entrepreneurship and change management, is attracting the interest of companies which need to find new and innovative ways to ensure their competitive position in a complex environment.

The interest in the subject was reflected in the quantity and quality of articles received for publication: more than 400 MBA students representing 42 business schools wanted to take part of this second edition of the ESADE MBA Business Review. The evaluation process completed by the Panel of Experts in the final stage, analyzed the papers of 75 teams of authors from 24 universities. This study focused on the important and innovative aspects of Corporate Entrepreneurship in their work.

The Indian Institute of Management in Bangalore, and the Indian Institute of Management in Lucknow stand out, with a total of 26 articles sent.

The table shows a list of the universities whose students answered the Call for Papers, and the number of articles sent by each of them.

From among all the articles, the magazine had to choose The Best Entry of the Year and select 10 articles for publication. The committee entrusted with this double selection process was composed of lecturers and Academic Assistants from ESADE's Department of Business Policy: Eugenia Bieto, Alberto Gimeno, Laura Lamolla, Montse Ollé, Pedro Parada, Marcel Planellas, Carlos D. López and José Luis Marín.

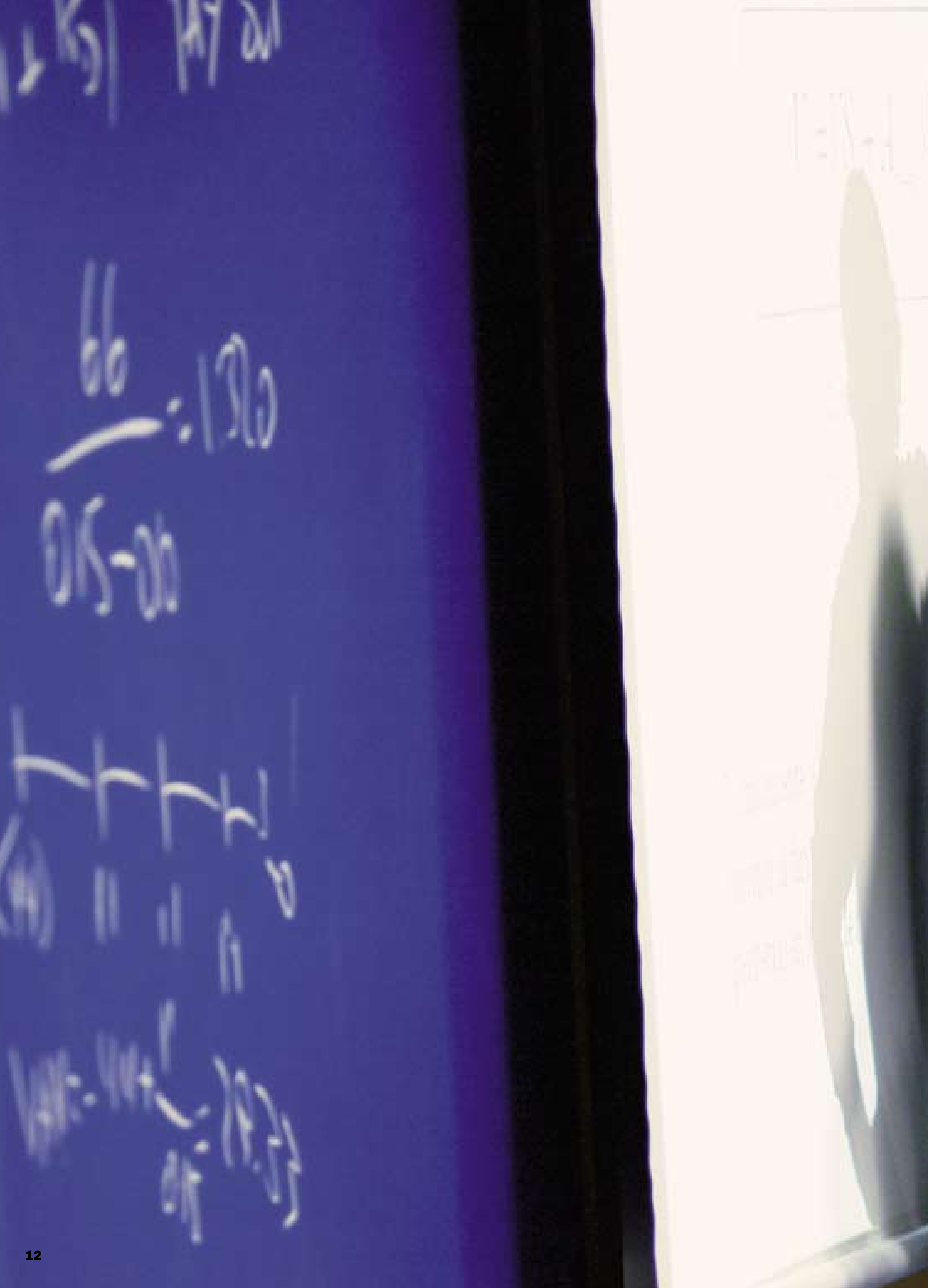
The articles finally selected come from India, Italy, Canada, South Africa, Switzerland, United States and Hong Kong and offer an overall, multicultural perspective of the Corporate Entrepreneurship phenomenon.

They moreover provide innovative answers to the following questions, at the same time as proposing models that are easy to implement in companies:

- How can a business promote entrepreneurial behaviour internally?
- What kind of organizational structures and/or mechanisms can successfully harness entrepreneurial activity for the benefit of the business?
- How can these structures be implemented and the benefits to the organization be measured?

The article selected as "The Best Entry of the Year" is "The age of entrepreneurial turbulence"; its authors, Elizabeth W. McBeth and Tomislav Rimac, from the Rotman School of Management, Toronto, define the Entrepreneurial Orientation of companies through 7 dimensions and propose a future model to be followed by all kinds of organizations that want to become more entrepreneurial.

The 2nd issue of the MBA Business Review undoubtedly represents an important contribution to the debate on why companies need to promote Corporate Entrepreneurship, and on how they can do so.



Strategic Harmony

The fit between corporate entrepreneurship and parenting

BY :
EUGÈNIA BIETO, DIRECTOR OF ENTREPRENEURSHIP CENTER OF ESADE
PEDRO PARADA, PROFESSOR OF BUSINESS POLICY DEPARTMENT OF ESADE
MARCEL PLANELLAS, PROFESSOR OF BUSINESS POLICY DEPARTMENT OF ESADE

Should companies be cautious entrepreneurs or should they embrace a dynamic force? This is how the European Business Forum presented the debate between Andrew Campbell and Robert Burgelman. On one hand, Campbell was advocating for its Parenting Advantage framework and Burgelman for its Corporate Entrepreneurship framework. Yet, what's the difference? Do they fit together in Corporate Strategy? Corporate Strategy is about defining where to compete. Thus, it is about establishing the scope of the corporation, about redefining business boundaries. Then, is the scope of the corporation modified in a different way when using Campbell's or Burgelman's model?

Corporate Entrepreneurship suggests that corporate strategy is shaped by viable internal entrepreneurial initiatives that drive value creation. In this framework there are several processes from the inital product championing which starts by linking technology and needs, to the selecting stage in which the corporate center designs an structural and cultural context that allows the intrapreneurial initiatives to develop. In this complex set of processes, local line leaders, middle managers and corporate managers play an important role. Even though there are feedback loops in middle stages of the Corporate Entrepreneurship process, the drive comes from below, from front line people. Thus, Corporate Entrepreneurship involves a bottom-up approach to corporate strategy. In this view the key for the development of the company is "to let a thousand flowers bloom". The challenge is to generate as many new ideas as possible. Therefore, the parenting role is simply to create the conditions to make it happen.

The parenting framework suggests that corporate strategy involves corporate parenting. That is, that the corporate center adds value to strategic business units by exerting its influence on them. Indeed, according to this framework value creation occurs when parent characteristics fit with key success factors on each unit's industry and with its needs for improvement, which they call parenting opportunities. Furthermore, parenting influence exerted when parenting characteristics do not fit with key sucess factors and parenting opportunities might destroy value. Thus, the parenting framework involves a top-down approach to corporate strategy. In this view, parenting dictates corporate strategy. What matters is the business insight of the corporate center. The center envisions and the organization follows.

Our approach is that corporate strategy is not solely driven by corporate entrepreneurship nor only by the parenting influence. Indeed, corporate strategy is shaped by a simultaneous process of mutual adjustment that takes place in the interaction of corporate management and intrapreneurs. In this sense, both strong corporate entrepreneurship and strong parenting are required for creating value in the corporation. Consequently, corporate value creation appears when parenting fits with entrepreneurial initiatives at strategic business unit level. We could say that this is a situation of Strategic Harmony.

Our proposal is different from Burgelman's and Campbell's views. In the original corporate entrepreneurship model, the organizational processes are key for modifying the scope of the corporation and to facilitate growth. In this approach corporate strategy would be equivalent to the aggregate of new ventures coming from intrapreneurial behaviour of insiders.

On the other hand, in the original parenting framework, the key issue is how to control the development of the organization. Parenting style might vary from financial control to strategic control. In any case, strategic business units whose strategic logic does not fit with parent characteristics are candidates for divestment and thus intrapreneurial projects would be rejected.

In our view strategy is key. Parent organization should establish a clear strategy for the company and allow corporate entrepreneurs to develop intrapreneurial initiatives. Even more, a lack of such long term strategy creates confusion and might reduce the development of new initiatives and consequently the ability of the company to renew itself.

In summary, a company that intends to foster corporate entrepreneurship should first establish a clear long term strategy in order to create a framework for new intrapreneurial initiatives to develop. Indeed, strategy should identify key vectors for development among which corporate entrepreneurs might choose and contribute. Corporate resources would be available for specific vectors of development. New ideas would compete for them. Then, if ideas do not match strategies, they do not get resources. This approach would represent a reconciliation of two substantive schools of thought in strategic management: the corporate entrepreneurship tradition and the parenting one.

02

How are tomorrow's business leaders i.e. today's MBAs thinking?

SHOWCASING THEIR THOUGHTS ON CORPORATE ENTREPRENEURSHIP

JOSEPH L. ROTMAN SCHOOL OF MANAGEMENT, UNIVERSITY OF TORONTO
BY ELIZABETH W. MCBETH, TOMISLAV RIMAC

The Age of Entrepreneurial Turbulence

Creating Sustainable Advantage for Individuals, Organizations, and Societies in the New Century

"Familiar habit makes for indolence.
We must prepare for parting and leave-taking
Or else remain the slaves of permanence."
Hermann Hesse, "Stages", Magister Ludi (The Glass Bead Game)

"Creativity can solve almost any problem. The creative act, the defeat of habit by originality, overcomes everything." *George Lois*

"…your business won't survive without creativity." *Michael Porter*

INTRODUCTION

In these turbulent times, sustainable advantage will increasingly depend on our capacity – as individuals, organizations, and societies – for innovation. Innovation is the development of something new and ultimately depends on the knowledge, skills, and creativity of individuals. Entrepreneurship is an opportunity-focused approach to venturing that requires "a creative state of mind that can see a way around impossible barriers and […] react to unexpected problems and opportunities along the way."[1]

In the current, hypercompetitive business environment, any competitive advantage will be short-lived. Only by adopting a deep commitment to ongoing innovation and self-renewal, fostered and managed through Entrepreneurship, will organizations match the pace of change and ensure their long-term sustainability and survival in the new century.

In this paper, we begin by considering how the pace of change impacts learning in the knowledge economy and by developing a profile for a new generation of entrepreneurial professional. We then offer insight into how the transformation from a traditional to an entrepreneurial orientation can be achieved within organizations. Finally, we briefly consider how Entrepreneurship in a social context offers organizations on both sides of the profit divide the potential for 'doing good' while 'doing well'.

THE ENTREPRENEURIAL PROFESSIONAL

Integrative Learning

While technology facilitates knowledge transfer and communication, individuals remain at the core of the global, knowledge economy as both the source of new knowledge and its principal users. As the rate of knowledge obsolescence increases, learning challenges will become more demanding. Knowledge will no longer serve as an end or even a foundation to build upon, but as a continual point of departure. Learning must therefore become an ongoing process that continues throughout adulthood.

While continual learning is not an easy path for individuals, we should stress that it does not imply continually 'rolling the stone back up the hill.' Quite the opposite, continual learning ensures self-renewal and greater self-determination – presenting individuals with an enormous challenge and an opportunity to manage their own careers and development.

Future professionals will have to balance the tension between subject mastery and innovation and creativity, demonstrated through integrative thinking and the creation of self-enabling and self-correcting models. Since intellectual cross-pollination fosters creativity, and the widest possible variety of knowledge is gained through collaboration and networking, the most intensive and valuable learning will take place in multidisciplinary teams. This style of integrative learning will become the model for both individual and organizational learning in the new century.

THE CORPORATE ENTREPRENEUR

The most sought-after professionals in the 21st century economy will be a new breed of corporate entrepreneur, or intrapreneur (Pinchot: 1976): individuals whose education and experience are both broad and deep and who have the requisite skills for identifying and exploiting opportunities; fostering team-based innovation, or intercreativity; and managing change.

We reject the notion of an innate entrepreneurial personality, at least not in the commonly accepted sense that equates to risk-takers. Entrepreneurs are people who tend to systematically analyze opportunities, detect risk, and try to minimize it as much as possible. While this might be described as a conservative personality, we refer to it as risk-aware and opportunity-focused and believe that it can be taught and fostered in a properly structured environment.

TABLE1. THE GENERATIONAL DIVIDE

	Traditionalists (Born 1922-1945)	Baby Boomers (Born 1946-1964)	Gen Xers (Born 1965-1980)	Gen Y (Born 1981-2000)
Relationship with authority	■ Respect for authority and hierarchical system. ■ Seniority and job titles are respected.	■ Challenge authority. ■ Desire flat, democratic system.	■ Unimpressed by authority. ■ Competence and skills are respected over seniority.	■ Respect for authority who demostrate competence and advanced skills. ■ Flip traditional roles on their head by teaching superiors how to use technology.
Relationship with organization	■ Loyal to the organization. ■ "Pay your dues". ■ Climb the corporate ladder. ■ Career = opportunity. ■ Understands the volatile nature of employment. ■ Formal relationship with supervisors.	■ Loyal to the team. ■ "Live to work". Career = self worth. ■ Wants job security. ■ Personal relationships with supervisors.	■ Loyal to the manager. ■ "Work to live". ■ Career = one part of me. ■ Expects to be downsized. ■ Informal relationships with superiors. ■ "Tell me what you can do for me".	■ Loyal to colleagues. ■ "Work to contribute" ■ Career = opportunity to add value. ■ Very casual relation-ship with superiors. ■ "Show me what you can do for me right now".
Relationship with colleagues	■ Formal relationships. ■ When in conflict, defer to seniority.	■ Personal relationships. ■ Avoid conflict.	■ Colleagues are friends. ■ Open dialogue to resolve conflict.	■ Casual and social relation-ships. ■ Debate and challenge each other to achieve compromise.
Work style	■ Work hard- "Get it done". ■ Focus on process and rules. ■ Don't rock the boat. ■ Follow the leader. ■ Linear work style. ■ Learn from elders/more experienced. ■ Dislike change.	■ Bend the rules. ■ Work in teams. ■ Focus on people not numbers. ■ Structured work style. ■ Cautious of change.	■ Focus on results. ■ Change the rules. ■ Work independently with little supervision and informal team structure. ■ Multi-task. ■ Flexible work style. ■ At ease with change.	■ Focus on quickest solution using technology. ■ Challenge the rules. ■ Work independently with supervision and direction. ■ Fluid work style. ■ Desire change.
Management style	■ Command and control. ■ Demand respect. ■ "Do what I say, not what I do". ■ Micro-management. ■ Dictatorial. ■ Rigid.	■ Participative. ■ Decisions by consensus. ■ Open-minded. ■ "Flavour of the month". ■ Desire alternative management styles but face difficulty in implementing. ■ Political.	■ Fair. ■ Straightforward. ■ Flexible. ■ Brutally honest. ■ Not political.	■ Inclusive. ■ Personal. ■ Opinionated. ■ Still to be determined.

Source: N_GEN PEOPLE PERFORMANCE INC.
The Globe and mail, march 31, 2004, C6, "The generational Divide", Virginia galt

Successful intrapreneurs will be highly opportunity-focused, results-driven, calculated risk-takers. They will work collaboratively and expect flexibility, autonomy, and rewards commensurate with the level of responsibility they assume and the results they achieve. Given the accelerated pace of change, complete development and commercialization requires the competencies and knowledge of a team, and above all, new intrapreneurs who recognize the value of collective effort. Individual skills and knowledge will fuse with broad organizational skills, and a group capacity to innovate will emerge. This powerful synergism is collective Entrepreneurship (Reich: 1987).

THE NEXT GENERATION

As the "baby boomer" generation retires over the next decade, generations "X" and "Y" will become dominant players in the workforce. Their values, as outlined in the table below, differ significantly from those of previous generations, and companies will face the challenge of attracting and retaining these talented but fiercely independent creative thinkers who are least likely to desire to work in traditional organizations. We argue that the generation shift will instigate a major change toward an organizational culture that supports experimentation and self-actualization in order to achieve superior performance. Indications of this shift can already be observed in numerous IT, design, and other organizations whose success depends heavily on the creativity of their workforce. This irreversible trend will permeate all sectors of the economy and adjusting to it by adopting an entrepreneurial orientation will be crucial to the long-term survival of every organization.

THE ENTREPRENEURIAL ORGANIZATION

"The things we fear most in organizations – fluctuations, disturbances, imbalances – are the primary sources of creativity."
Margaret J. Wheatley

Entrepreneurship and innovation are not naturally occurring in organizations. They are designed capacities and it is management's responsibility to determine the appropriate degree of Entrepreneurship for individual departments and for the organization as a whole, as well as to design an environment that channels innovation and promotes entrepreneurial activity. Our comparison of the entrepreneurial orientation to the traditional orientation across seven of its dimensions is summarized in Table 2, below.

Dimension 1: Strategy (Commit)

Increasingly, the very survival of organizations depends on whether or not they employ entrepreneurial (proactive) rather than Darwinian (adaptive) strategies to address the turbulence in their operating environments. Rapidly changing technology, consumer demands, and societal values are forcing organizations to be opportunity-focused rather than resource-driven. The challenge for managers in entrepreneurial

TABLE 2. SEVEN DIMENSIONS OF AN ENTREPRENEURIAL ORIENTATION

Low (traditional)	Dimensions	High (Entrepreneurial)
▪ Risk-averse and resource-driven ▪ Adaptive ▪ Short-term orientation (1-5 years)	**Strategy** Commit	▪ Risk-aware and opportunity-focused ▪ Proactive ▪ Long-term orientation (5-15 years)
▪ Complete commitment of resources at outset ▪ Match opportunity to avaliable resources	**Risk Management** Balance	▪ Stepwise commitment of resources with minimal exposure at each stage ▪ Attract resources to potential opportunity
▪ Predictability, resistance to change ▪ Extrinsic motivation ▪ Experience	**Corporate Culture** Attract	▪ Acceptance of change ▪ Intrinsic motivation ▪ Experiences
▪ Stability and centralized control ▪ Hierarchical, departmental, silos	**Organizational Structure** Empower	▪ Flexibility and autonomy ▪ Flat, team-based, people-centered
▪ Bureaucratic, rigid ▪ Procedural focus ▪ Command and control	**Systems** Connect	▪ Open, networked, flexible, interconnected ▪ Results focus, self-correction ▪ Communication and coordination
▪ Based on responsibility and seniority ▪ "One-size-fits-all" rewards ▪ Promote safe, efficient behavior	**Reward Philosophy** Motivate	▪ Based on value creation, team-based ▪ Individualized rewards ▪ Promote creativity and innovation
▪ Specialized ▪ Task and role-oriented	**Learning** Integrate	▪ Integrative, ongoing, and experiential ▪ Focused on individual growth

organizations is to remain open to opportunity and focus on the long term while striking the right balance between proactiveness, innovativeness, and risk (Morris: 1988) today. Maintaining this balance in turbulent times requires continual monitoring and reinforcement. Companies that fail to do so will not survive into the future; yet those that do greatly increase the level of uncertainty they are exposed to, giving rise to the need for new approaches to risk management.

Dimension 2: Risk Management (Balance)

In an entrepreneurial organization, the strategic commitment to opportunity and focus on the longer term must be balanced by appropriate risk management practices. Entrepreneurial organizations successfully manage risk by committing small amounts of resources to new ventures in a stepwise manner, affording them greater flexibility to respond to unanticipated challenges and opportunities. By committing resources in stages rather than ‘all-at-once’, management can evaluate the potential success of the venture at key steps in development, attract resources from other sources to spread risk, and fine-tune aspects of the venture to maximize returns and further minimize risk. This approach supports rapid growth in an environment characterized by change. It also introduces the possibility of treating unsuccessful projects, false starts, and unmet targets as learning opportunities rather than as outright failures, which is essential to sustain innovation, creativity, and financial viability.

Dimension 3: Corporate Culture (Attract)

When management commits to an entrepreneurial orientation, the culture of the organization through its people must be able to support this transformation. One of the primary obstacles to Entrepreneurship within large organizations is widespread resistance to change, which is often the result of a preoccupation with the present or near term. Corporations with a short-term orientation tend to place high value on stability and predictability and to offer little incentive to challenge the status quo.

Entrepreneurial culture is centred squarely on accepting and managing the forces of change and creating new possibilities. In order to be creative and take risks, however, intrapreneurs need an environment of safety and freedom to experiment without fear of reprisal when initiatives do not lead to desired results.

Changes to an organization’s culture can be compared to tectonic movement, which occurs at varying depths below the surface and can be observed either as slow and gradual change or sudden shocks with profound effects. As the next generation of managers grows into positions of authority within organizations, we anticipate a major change in corporate culture. We also stress that it will have to change in order to attract the best talent from a generation that desires a broad variety of experiences and more freedom and autonomy than previous generations.

Dimension 4: Organizational Structure (Empower)

The organizational structure is the underlying framework which determines how quickly and to what extent the organization will be able to change. Ideally, entrepreneurial organizations should be decentralized, flexible, and experiential (providing opportunities to learn by doing and experimenting). The optimal structure is flat, people-centred, team-based, and dominated by informal networks and a strong support for employees’ desire for independence.

While this structure easily fits a small business or start-up environment, it would be difficult to introduce “wholesale” into a large, established, traditional business. The easiest way to introduce Entrepreneurship into such organization is to create a separate entity with a mandate to innovate. The design we suggest is typical of an ambidextrous organization where two completely different structures coexist. This creates an environment that protects both aspects of the business, allowing the entrepreneurial part to operate free from the systems and procedures associated with the more mature business, while protecting the resources of the existing business from excessive risk and instability.

Many examples of “hybrid” or ambidextrous organizations exist, including action labs (cross-company projects giving people large amounts of power, time and leeway, permission to be creative and bold, and to challenge the status quo), skunkworks (small and loosely structured corporate research and development units or subsidiaries, formed to foster innovation and often undertaken in secret, operating completely independently until the innovation is ready for commercialization), and various approaches to organizational incubation and corporate venturing (establishing new profit centres).

Dimension 5: Systems (Connect)

Often company systems are built on rigid processes that restrict response to opportunities, for example budgeting processes that do not provide for funding of innovative and experimental projects. In addition, traditional hierarchical structures are usually complemented by top-down management and lack of working communication paths, resulting in organizational inflexibility and oversupervised employees unable to express their creativity. The resulting silo structure ensures that no one has an interest in seeing the change actually occur by dispersing the accountability for any change efforts.

Intrapreneurs desire greater accountability and autonomy and the creative, entrepreneurial organization is characterized by connectedness and a broad allocation of decision rights. Clearly, some decision rights remain centralized, but wherever appropriate they are cascaded and mechanisms put in place to allow feedback to flow back to the original decision maker. This improves the quality of future decisions and the options available to individuals down and upstream of the decision maker. The bi-directional flow of information and responsibility supports intercreativity while at the same time providing a self-correcting mechanism. This is how an entrepreneurial organization replaces command and control with communication and coordination in order to improve the quality and speed of decision-making.

Dimension 6: Reward Philosophy (Motivate)

One cannot expect creativity and innovation while measuring and rewarding the opposite. Traditional reward and evaluation systems are short-term-oriented and, consequently, encourage safe, predictable behaviour.

Reward philosophy controls the degree of sustained commitment that management can expect from individuals. Organizations adopting an entrepreneurial orientation should place more emphasis on individual long-term performance while rewarding group efforts to encourage collaboration.

Although intrapreneurs are highly intrinsically motivated and desire freedom and access to corporate resources (collective knowledge, experience, and tools) and learning experiences, they are also goal-oriented and seek rewards, feedback, and recognition. The appropriate reward system for these individuals is value and team-based, without upper limits. Specific rewards should be individualized and presented as options, allowing people to choose the rewards that resonate most with them.

Dimension 7: Learning (Integrate)

The competitive environment is dynamic and constantly changing. Rather than acquiring task or role-specific skills that can quickly become outdated, learning within organizations should be ongoing, experiential, and focused on individual growth. Entrepreneurial organizations offer continual training geared towards encouraging creative and integrative thinking and building team capabilities and support networks.

As baby boomers retire, they will leave a significant experience gap in organizations. Establishing training programs that promote individual growth and develop strong, creative teams will help to prepare the next generation of managers to fill this gap. Individuals should be given responsibilities that stretch their capabilities in a supportive environment. “Learning experiences” can include broader job descriptions, self-selection for specific tasks, exposure to a variety of organizational areas, and participation in a variety of cross-functional teams.

WHAT CAN WE DO TOMORROW?

The model below illustrates our view of how innovation and Entrepreneurship lead to self-renewal and create sustainable advantages for individuals, organizations, and societies.

By adopting an entrepreneurial orientation across seven dimensions, organizations can increase their capacity for sustained innovation and their ability to attract the best creative talent. This requires a new kind of contract between the organization and the individual that is based on development and renewal.

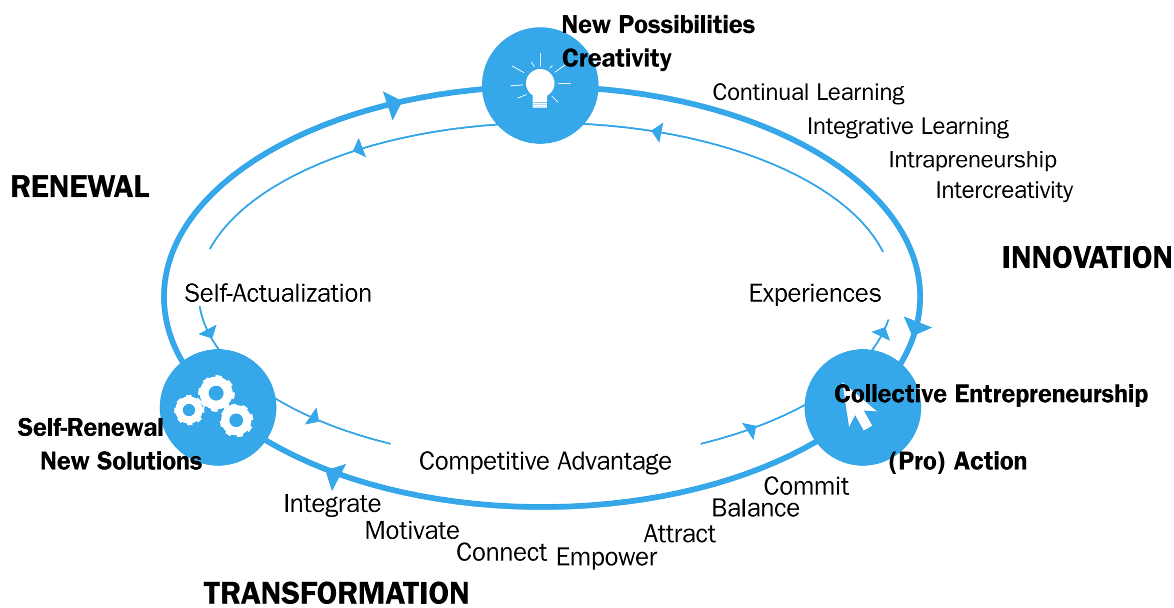
The seven dimensions of an entrepreneurial orientation form the basis for our seven commandments for the entrepreneurial organization. As a first step, management should consider to what extent they currently adhere to these principles.

THE ENTREPRENEURIAL SOCIETY

“…social enterprise is about a way of using business methods to help improve the health and sustainability of societies.”

Mary C. Gentile, Ph.D.

FIGURE 1. CYCLE OF SELF-RENEWAL



SEVEN COMMANDAMENTS FOR AN ENTREPRENEURIAL ORGANIZATION

1. **Commit** to being risk –aware and opportunity- focused and to weighing the long-term impacts of the decisions that you make today.
2. **Balance** opportunity and risk through continual monitoring and reinforcement and accept change and ambiguity as features of your operating enviroment.
3. **Attract** creative, innovative individuals by providing them with an environment of safety and freedom in wich to experiment, collaboratively.
4. **Empower** your employees by supporting their desire for independence and freeing them from unnecessary structural con straints that impede innovation.
5. **Connect** employees through a flexible network of systems that allow decision rights and information to flow broadly throughout the organization, while implementing self-correcting mechanisms to improve the quality and speed of decision making.
6. **Motivate** people with rewards that resonate with the individual and reward group performance to encourage greater creativity and collaboration.
7. **Integrate** learning and doing by providing your people with opportunities for individual and team growth.

SOCIAL ENTREPRENEURSHIP

Social Entrepreneurship, or social enterprise, is an approach to venturing that applies business methods to projects in the social sector, generating value for companies and communities. It can be described as "a partnership between private enterprise and public interest that produces profitable and sustainable change for both sides"[2] and demonstrates an organization's innovative, resourceful, and opportunity-oriented responses to social issues and challenges.

For organizations and individuals, the social arena can serve as a fertile ground for entrepreneurial activity and integrative learning – a staging area where new ideas, tactics, products, and services can be developed, piloted, and introduced and where unmet needs and new markets can be identified. Working with social and public sector partners, organizations can forge close links to social and public agencies and the communities they serve, building support for future ventures in a climate of trust and developing a reputation for being able to solve the most challenging of problems.

Social and public agencies benefit in a variety of ways. They gain early access to products and services that enable them to better serve their constituents, access to low- or no-cost consulting and support services, and new revenue streams to support their non-profit activities.

There are significant challenges to making social enterprise work, however; the most notable of which is resistance to collaboration due to a lack of trust of the intentions of private sector entities on the part of public interest agencies. When these initiatives are successful, however, they have the potential to promote radical change and serve as a powerful force for renewal: reinventing institutions, empowering individuals and communities, and solving complex and seemingly intractable problems.

CONCLUSION

"Ambiguous worlds are disturbing; but they are also magical. Beauty and ugliness are compounded; reality and fantasy are intertwined; history is created; intelligence is expanded."
James March

Although the global, hypercompetitive nature of the current business environment makes any competitive advantage short-lived, it would be a mistake to view these turbulent times as anything other than an unparalleled era of opportunity. In this paper we argue that an entrepreneurial culture will be a new "modus operandi" that will drive individuals, organizations, and societies towards an expanding set of new possibilities, ensuring not only business survival, but also self-renewal and the long-term health and well-being of the economy and society.

To keep pace with change and attract creative and entrepreneurial individuals, organizations must assume a proactive approach to managing change and innovation. This can be achieved by adopting an entrepreneurial orientation across seven key dimensions – Strategy, Risk Management, Corporate Culture, Organizational Structure, Systems, Reward Philosophy, and Learning.

Organizations can be characterized by their entrepreneurial intensity (EI) – "degree of Entrepreneurship," or the extent to which their activities are risky, innovative, and proactive, and "amount of Entrepreneurship," or the frequency with which entrepreneurial events occur (Michael H. Morris: 1988). At the organizational level, internal EI should be measured to benchmark entrepreneurial performance, allow for comparisons, and establish goals and strategies. The existing measures of organizational entrepreneurial activity are rudimentary. We suggest that the next step is to undertake more in-depth research to establish explicit links between entrepreneurial enabling activities related to the above-mentioned dimensions and financial performance.

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2 Rosabeth Moss Kanter, "From Spare Change to Real Change: The Social Sector as Beta Site for Business Innovation," Harvard Business Review (May-June 1999).

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BY VISWANATHAN RJ, GOWRI SHANKAR NAGARAJAN

The 4E Model

Designing an incentive system for internal ventures

“The driving forces of the entrepreneurs include a deep, personal need to achieve, to realize their visions, and to be able to say ‘I did it’; for them, money is a measure, not a goal.”
Gifford Pinchot on Intrapreneuring

The 21st century corporation is faced with two conflicting yet very vital objectives: the first, and more conventional, objective, pertains to integrating the various activities of the firm, aiming to achieve coherence, economies of scope, and economies of scale; the second, more entrepreneurial in nature, centres on creating new businesses and spurring innovation. And in an attempt to find a synergistic solution that attains a balance between these two conflicting objectives, now more than ever, businesses have started looking seriously at Corporate Entrepreneurship as the ideal route to success.

Corporate Entrepreneurship tries to encompass the conflicting notions of individual initiative on the one hand and corporate development on the other. In effect, businesses cannot foster the entrepreneurial spirit in employees without providing a sufficient incentive for the employees to take the associated risk. This would also require the business to increase the autonomy of individuals, thereby exposing the organization to the risk that their personal projects might diverge significantly from key strategic alignments.

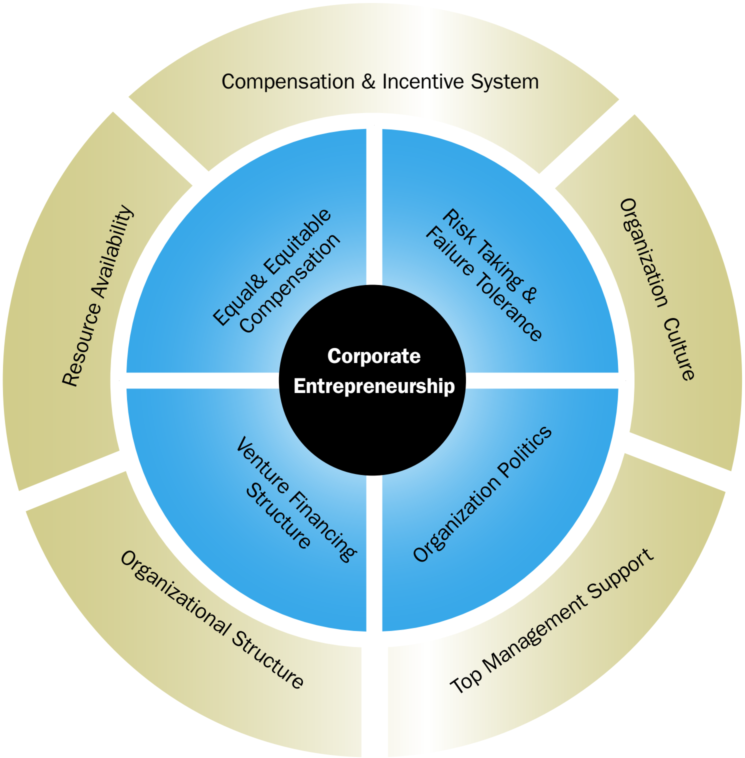
Furthermore, by doing so, corporations are effectively helping in nurturing the development of certain employees into highly valuable and marketable entrepreneurs, exposing themselves to the risk of their most valuable human resources leaving the organization to quit and start their own ventures.

In this context, the incentive system in place in the organization plays a vital role. The incentive and compensation system helps the organization in achieving multiple objectives: (1) Fostering the entrepreneurial and risk-taking spirit in the organization (2) Attracting and retaining the best talent (3) Promoting venture success and (4) Ensuring equity and equality

INTERNAL FACTORS INFLUENCING CORPORATE ENTREPRENEURSHIP

Of all the factors influencing Corporate Entrepreneurship (Fig. 1), perhaps the most important factors are the presence of a supportive organizational structure/culture, an equal and equitable compensation scheme and top management support. This paper will primarily be concentrating on the incentive issue with a mention to all other factors where relevant.

FIG.1: INTERNAL FACTORS INFLUENCING CORPORATE ENTREPRENEURSHIP



INCENTIVE AND COMPENSATION SYSTEMS

Most of the available literature on Corporate Entrepreneurship focuses on the importance of the need for entrepreneurial culture in an organization to the extent of neglecting the importance of the other systems and supporting structures. While culture does play an important role in promoting entrepreneurship, the authors feel that a strong case exists for designing supporting systems that will help the organization sustain its entrepreneurship culture in the long run.

One of the most important supporting systems and a vital subcomponent of any Corporate Entrepreneurship initiative is the Incentive and Compensation system in place for internal entrepreneurs. Compensation and reward systems play a central role in achieving the strategic goals of organizations because they can influence critical organizational, behavioural, structural and process outcomes.

Though a strong organizational culture may promote Corporate Entrepreneurship in the short run, a good compensation and rewards system is essential to acquire and retain high quality entrepreneurial talent. This is essential for an innovative organization in the long run. The system is essential to promote entrepreneurship culture, creativity and innovation in the organization.

The relationship between a Venture manager and the parent organization can be thought of as an Agency relationship. This agency relationship might lead to agency problems resulting in divergence of interests of the parent organization and the venture manager. In this scenario a good compensation and rewards system might be very useful in resolving the problems.

DESIGNING THE COMPENSATION SYSTEM

Designing the compensation system is a complex process. This section provides a comprehensive discussion of all the various issues and factors involved in the design of the compensation system.

Compensation Design: Prime Factors

Designing a compensation system for internal ventures involves various factors. The most important of these factors are discussed below.

The Human Element: Successful venturing requires a combination of entrepreneurial, managerial and technological roles within the corporation and venture. The recognition of these critical roles in the organization is essential for designing the appropriate compensation and incentive system. These roles vary, based on the life stage of the venture. The following diagram provides a comprehensive listing of all the roles that can be associated with a new internal venture. Each role has an associated incentive structure that comprises: Financial and non-financial incentives along with the risks of the role.

	Idea Inventor	Venture Manager	Venture Team	Decision Makers	Internal Support	External Workers
Financial Incentives						
Nonfinancial Incentives						
Risks						

The compensation system needs to take care of the needs of achievement and rewards for each of the roles. The compensation scheme would have to comprise both financial and non-financial incentives, which are commensurate with the nature of risk associated with the role.

Critical Success Factors: Different ventures will have different critical success factors. Based on these critical success factors, the incentive system needs to be designed. Some of the critical success factors and their corresponding incentive system design features are listed below:

SUCCESS FACTOR	INCENTIVE FEATURES
Enthusiasm and Continuing Commitment	■ Significant Earning Potencial ■ Direct relationship between incentives and performance ■ Competitiveness ■ Financial and symbolic significance ■ Rapidity of Feedback ■ Individualization
Effective Teamwork	■ Team-wide Incentives ■ Fairness of Distribution ■ Team Recognition
Organizational Support	■ Perception of Fairness ■ Balance between potential risks and rewards
Recognizing and adapting to reality	■ Payment for results, not for strict adherence to plan ■ Significant personal financial risk for venture managers

Autonomy, Structure, Processes: The success of venturing largely depends on the autonomy given to the venture unit. This is essential because the venture operates in an emerging market where most of the learning happens by doing. This is the main reason for the need for autonomy. The autonomy can be in three forms – in Decision Making, in Support and Resources needed and in Control and Reporting Required. Because the autonomy, structure and processes separate the venture from a normal business organization, there is a stronger need for a different incentive system.

Incentive Systems: Design Parameters

Short-Term vs. Long-Term Incentives: Short-term incentives encourage short-term actions, while long-term incentives encourage long-term and farsighted actions. In any corporate venture, there should be a balance of short and long-term objectives. Long-term incentives are suitable if a person can truly affect the performance of the venture. Long-term incentives are needed to stretch the capability of employees; however, only a few ever achieve these goals, so short-term incentive targets should be used.

Performance Relatedness: Incentives should be linked to performance. But this does not imply that failure should be punished. In any corporate venture, the probability of failure is always higher than normal, and both the organization and the venture personnel should be consciously aware of this fact. There could be rewards for employees even in case of failure, if the employee has performed well in his job.

Attracting and retaining: To be able to attract the best talent in the market, corporations founding new ventures will most likely have to modify their traditional incentive systems. Venturing should not be perceived by employees as a stumbling block to their career. In retaining talent, along with incentives, other issues like policy and administration, supervision, interpersonal relationships and working conditions in the new venture also play a vital role.

Apart from these, there are certain basic issues that should be kept in mind while designing the system. The incentive system should be simple and its objectives should be clear. The performance priorities should be clearly set. Incentives should be present during the entire life cycle of the new venture.

INCENTIVE SYSTEMS: THE COMPONENTS

There are 3 major components to a compensation system in a corporate venture:

a) Financial Incentives
b) Non-financial incentives
c) Risks

Financial Incentives

Financial incentives are the most widely researched component of the compensation system. The following table provides a summary of the various financial incentives that are commonly used:

FINANCIAL INCENTIVE IN VENTURE	INCENTIVE FEATURES
Equity and Equity-Related	■ Shares/ Options in parent firm/ venture ■ Phantom shares: If venture doesn't exist as a separate entity ■ Encourages collaborative behavior ■ Purchased equity in new venture links risk to potencial reward ■ Relatively long term incentive
Bonuses	■ Three popular types Fixed amounts known in advance; Variable, performance linked; Discretionary bonus after major contribution ■ Can be both long term as well as short term
Salary increases and salary	■ Salary increase is related to Changing role in the venture
Fringe benefits	■ Holiday trips, Scholarships to Children Sabbaticals etc.

Non - Financial Incentives

Non-financial incentives are sometimes much more important than financial incentives, especially in the case of corporate ventures. The following table provides a summary of the various non-financial incentives that are commonly used:

NON-FINANCIAL INCENTIVE IN CORPORATE VENTURE	INCENTIVE FEATURES
Top management support for venture	■ Presence of a management champion for the venture ■ Increased resources: money or personnel
Autonomy Freedom Independece	■ Basic motivation of intrapreneur is to realize his vision in his own way: Autonomy ■ Intrapreneur does not have to take management permission for every move: Freedom & Independence in operation
Recognition	■ Recognition is not just a gesture, it is an empowerment tool ■ Manifested through recognition ceremonies, awards and corporate publications
Authority Responsibility Power	■ Subtle incentives ■ Only explicit way of awarding these incentives is through promotions ■ Promotion to broadened responsibilities is the fundamental corporate reward

Risks

One unique aspect of a corporate venture is the presence of a substantial risk for the venture personnel. The risk associated with a new venture for the personnel running it may be categorized as follows:

RISK FOR PERSONNEL IN CORPORATE VENTURE	NATURE OF RISK
Financial Risk	■ Opportunity cost of leaving some other division and working for new venture ■ Possibility of missing out on incentives due to the inherent risk of the new venture
Career Risks	■ Working for the new venture may become a Stumbling block in the employee's career. He may miss out on promotions, etc
Job Security and benefits related risk	■ Firms sometimes don't guarantee jobs in case of venture failure. This creates job security risk. ■ While joining new venture employees often have to give up standard benefits package.
Effort & Stress	■ A new venture, by its inherent nature, is often more stressful and difficult than an established venture

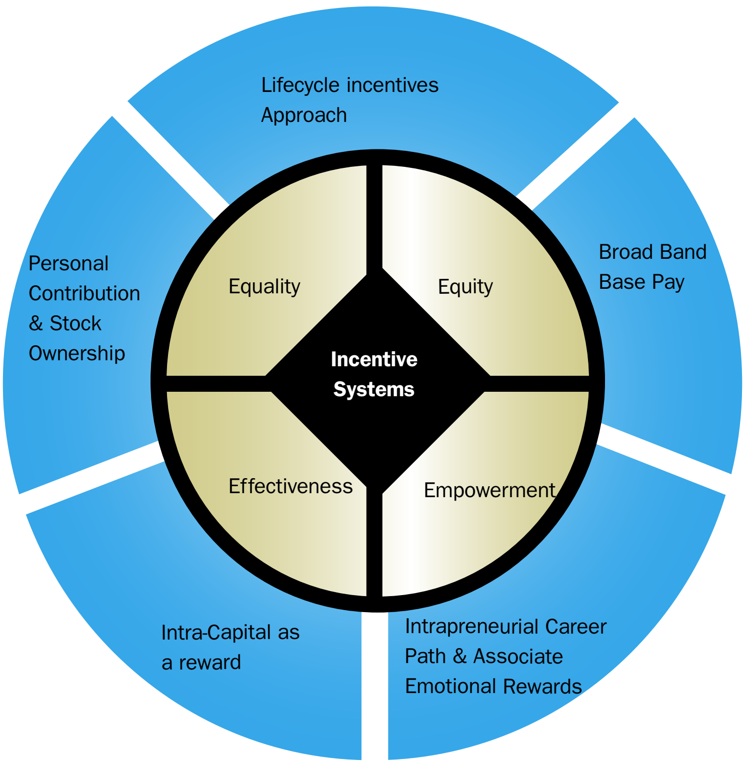
With this we have covered the whole spectrum of incentive-related issues in the corporate venture. Based on our understanding of the various factors, parameters and issues of incentives in a corporate venture, we will be proposing a design for incentives in the following section.

THE 4E MODEL: OUR PROPOSAL

In this section we propose the 4E Model, an incentive system that tries to cater for the various conflicting objectives of the Corporate Entrepreneurship initiative. It must be noted at this stage that though any incentive plan must reflect the unique realities of the parent corporation, what follows is a "generic" incentive strategy that can be easily tailored to the specific organizational context.

COMPONENTS OF THE 4E MODEL

FIG: THE 4E MODEL FOR INCENTIVE DESIGN IN CORPORATE VENTURES



The 4E Model is an objective-oriented model and is geared towards the attainment of four primary objectives that we believe are vital for a successful corporate venture programme:

Effectiveness, Empowerment, Equity and Equality

Being objective-oriented, the key aspect of the model is the attainment of the objectives and not the exact configuration required to attain the objectives. In this paper we will be discussing one particular configuration of incentive system that can be applied to most conventional organizations. At the risk of repetition, the authors reiterate that an organization adopting the 4E model can use any configuration similar to the one proposed in this paper, as long as the tools chosen help in attaining the end goals.

We will now provide a description of a set of incentive mechanisms geared at attaining the four aforementioned objectives.

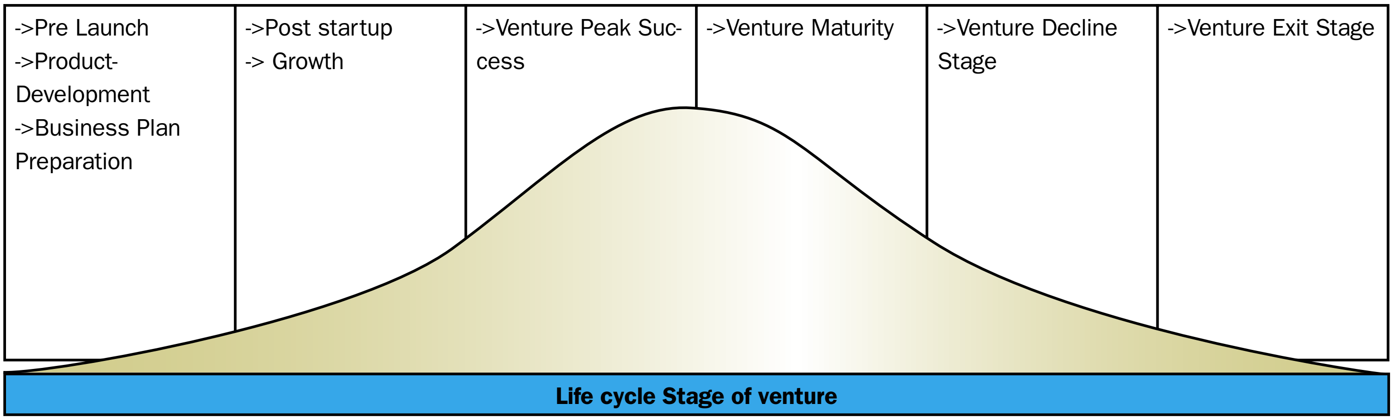
Personal Contribution and Stock Ownership:

In a personal contribution scheme employees contribute a percentage of their annual salary with no change in salary until the firm reaches a pre-specified level of profitability. On reaching this level, the employee may be given several cash and non-cash incentives based on firm performance, apart from restoring the employee's salary to cover foregone income and freezing it for another year.

Stock ownership can be provided for through two mechanisms. The first mechanism is the awarding of options for shadow/actual equity in the venture itself, for milestone achievements, related to quantitative results. In order for these options to be valuable, provisions which permit the employee to sell the stock which has been acquired back to the company or to convert it into parent stock may be included. The right to exercise such options or the right to sell may be more or less tied to time to discourage excessive short-term actions. Purchased equity in the new venture is the element that links risk to potential reward most directly, and it comes closest to the situation of the independent entrepreneur.

The second mechanism is the awarding of equity itself rather than options in the new venture. While there is incentive provided by the possibility of increasing share value, there is no economic risk for the participant as in the case of options.

The advantage of using a personal contribution or a stock option plan is that it encourages collaborative behaviour; if the venture fails, everyone loses their contribution. This scheme also links risk to potential rewards.



Life-Cycle Incentives Approach:
The organization must have different incentives for its venture personnel during different stages of the venture life cycle.

In the following table, we have tried to provide a brief summary of the various kinds of incentives that can be used during various stages of the venture's life cycle.

By grouping together several classes of employees into wide bands, the perceived differences between the venture personnel and other employees are likely to be reduced.

Intra-Capital as a reward:
One of the most fundamental measures of progress for an intrapreneur is the increasing freedom to use corporate resources to build new businesses for the corporation. Intra-capital is a timeless discretionary budget. It is earned by the intrapreneur and is used in funding the creation of new enterprises. Intra-capital is not only a powerful motivator; it can also have a negative cost.
Intra-capital gives intrapreneurs what they crave for: the freedom to make their ideas happen. It is an Empowering system. It gives the intrapreneurs the right to choose their own vision to pursue. It has a negative cost because it will be spent much more carefully than capital that is just a small part of a senior manager's budget.

LIFE-CYCLE STAGE OF VENTURE	SUGGESTED INCENTIVE SCHEME
Pre-Launch	■ Small discretionary bonus could be provided on completions of feasibility and concept study.
Product Development Stage	■ Medium to significant bonus on ontime, within estimated budget, product development ■ Needs built in quality protection provisions
Startup	■ Bonus could be calculated as a % of the difference between planned and actual startup expenses.
Ongoing Sales and Production	■ Percentatge of dollar amount improvement over planned profit or loss to be shared by venture team
Post Venture Maturity stages	■ Payout mechanism for venture personnel who voluntarily leave or are transferred or discharged

Broadband Base Pay:
Broadband Base Pay tries to satisfy the Equality component of the 4E model. Broadbanding as a concept has been widely endorsed by researchers and practitioners across the globe. But its application in the context of the new venture of a large organization has not been sufficiently explored yet.
We suggest that broadbanding would help in resolving the "differential pay" problem that often plagues several Corporate Entrepreneurship initiatives. By compressing a hierarchy of pay grades into a small number of wide bands, the system can help in achieving perceived equality. It makes administration simpler, it causes less discontinuity in the transfer of personnel from one job to another, and it promotes fairness. The primary reason is fairness. Dissension is sure to occur when employees perceive that some other person or group is placed higher in the payment hierarchy for equivalent skills and effort.

Intrapreneurial Career Path and Associated Emotional Rewards:
One of the major challenges in retaining the most talented intrapreneurs is providing a career path for them. Most

intrapreneurs find it difficult to get back into the work mode of a normal business. The tragedy of promoting intrapreneurs to the managerial levels of large businesses is that they are undone by the very character traits that made them great intrapreneurs.

Two alternative mechanisms can be adopted to solve this situation:

1. Bonuses: Intrapreneurs can be given substantial bonuses in lieu of promotion.
2. Serial Intrapreneuring: This solution calls for recycling of intrapreneurs. In this form, the intrapreneur is transferred from one mature internal venture to another developing venture. The transfer is often accompanied by substantial bonuses.

Emotional Rewards: A typical intrapreneur's motivation is widely different from that of a conventional business manager. There needs to be a substantial component of non-financial, emotional rewards in the incentive package of an intrapreneur. It has been noted in entrepreneurship literature that "substantive attention rather than monetary reward was in some cases more highly prized". Emotional rewards encompass a whole set of rewards ranging from recognition through firm-wide award ceremonies to minute aspects of job enhancement.

Each of the various mechanisms described here is just one component of the total incentive structure in a 4E–model-based design, and is not sufficient by itself.

CONCLUSION

In this paper we have proposed and discussed in detail the 4E model for designing incentives for corporate ventures. The four primary objectives that the model tries to accommodate are Equity, Equality, Effectiveness, and Empowerment. The model has been proposed on the basis of analysis of the key drivers, parameters and issues in the designing of an incentive system. The 4E model is a generic objective-oriented model that provides a broad framework for structuring an incentive scheme for corporate ventures. The 4E model specifies an overall structure under which various individual components can fit in.

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BY DAVE PUREWAL, RUSSELL SEIDLE

Innovative Tension for Present and Future Success

Encouraging Corporate Entrepreneurship in the Modern Organization

"The corporations who win in the future will be those that thrive on change. Companies that build a culture of accepting change, that build a process implementation that allows for rapid change and standardization are uniquely positioned to take advantage of market transitions."
-John Chambers
President and CEO, Cisco Systems InC.

INTRODUCTION

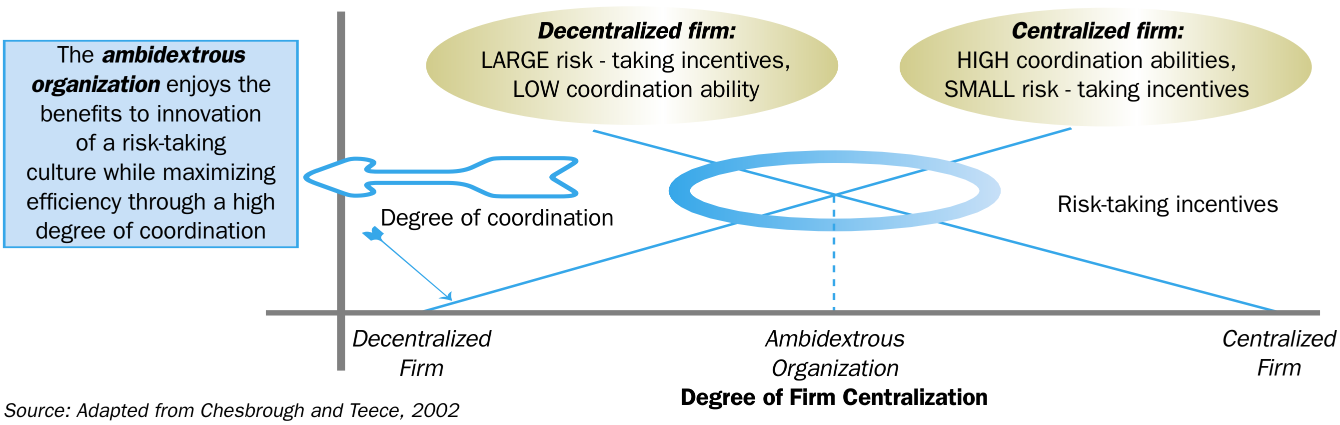
Corporate Entrepreneurship has been variously defined as novelty or wholesale change in patterns of resource deployment (Kuratko et al, 2001; Stopford and Baden-Fuller, 1994), action that strengthens innovation while allowing for increasingly sophisticated management (Guth and Ginsberg, 1990; Naman and Slevin, 1993), and pursuit of opportunities without regard to resources under current control (Stevenson et al, 1999; Stevenson and Jarillo, 1990).

In analyzing the literature, some commonalities are readily apparent. Tellingly, many authors agree on the centrality of innovation and its facilitating resources for corporate Entrepreneurship.

We believe that organizations can promote corporate Entrepreneurship through the simultaneous pursuit of two broad streams of innovation. The first capability creates the technical and market expertise needed to produce incremental improvements in existing product lines. In this way, current knowledge and expertise are leveraged to benefit corporate standing in current markets.

The second capability, labelled discontinuous innovation after Tushman et al (1997), involves the creation of revolutionary products or services outside current areas of competency. This allows the company to identify new offerings that will sustain growth and profitability after current lines of business have become obsolete due to changes in technology and market demand.

EXHIBIT 1: DUAL COMPETENCY IN THE AMBIDEXTROUS ORGANIZATION



Source: Adapted from Chesbrough and Teece, 2002

ESTABLISHING INNOVATIVE TENSION IN THE ORGANIZATION

Corporate Entrepreneurship, in short, is best served by embracing the dynamic tension between incremental and discontinuous innovation inherent in an 'ambidextrous organization' (Tushman et al, 1997). Such an organization facilitates entrepreneurial risk-taking while concurrently maintaining overall coordination of activities, as schematized in **Exhibit 1**. Being ambidextrous entails managing the push and pull of these diverse innovative tendencies.

Internal tension, far from being a disruptive force, can bring the company to a greater understanding of its mission and of the industries in which it competes (as well as of those which it aims to dominate in the future).

How, then, can innovative tension be encouraged in the modern corporation? We propose the following model.

Continuous innovation is – and should remain – the province of those functional groups active in bringing company offerings to market, whether such involvement is direct (R&D, operations, manufacturing, and sales) or indirect (finance, marketing, human resources, and accounting). Incremental innovation, in short, should be an organization-wide undertaking, with all functional areas encouraged to develop insights that will improve the company's bread-and-butter products.

Discontinuous innovation, in contrast, builds on ideas outside the realm of current core competencies. Attempting to force this radical thinking through existing organizational channels would distract from the attention required to nurture the offerings from which present financial strength is derived. A separate group must instead be developed in which these new ideas can incubate before being brought to market.

To this end, we recommend the creation of a New Venture Division (Burgelman, 1985) to tackle the research associated with discontinuous thinking. Our idea parallels the 'entrepreneurial structures' in Drucker (1985) and 'product innovation businesses' in Hagel and Singer (1999).

This division represents "a semi-autonomous entity with little formal structure, … availability of 'patient money', and management support for risk-taking and creativity" (Birkinshaw, 1997: p. 209). The New Venture Division (NVD) can be thought of as a scaled-up research and development department containing a looser form of the corporation's functional structure. Similar constructs have been used to profitable effect by Motorola and IBM (Macher and Richman, 2004).

The remainder of this paper elucidates the structures, measurement tools, and incentives necessary to create 'harmonious innovative tension' in the organization. We will show that establishing the NVD as a complement to pre-existing organization-wide structures addresses the twin entrepreneurial issues of innovation and resources alluded to above.

A CORPORATE STRUCTURE TO FACILITATE INNOVATIVE TENSION (AND ENTREPRENEURIALISM)

Having distinguished between the two types of entrepreneurial activities within the firm, we now turn to the organizational structures needed to support these undertakings.
Given the functional focus on incremental innovation, we believe that the establishment of embedded work teams focused on tactical issues is the best means of encouraging new ideas in existing product lines. Essentially, cross-functional teams would be created to share insights regarding improvements in current company offerings. Innovation ideas then flow through company information channels, which will already have been established for current products.

This contrasts sharply with the stand-alone structure advocated below for the New Venture Division.

A Model for Growth: Scalability and the New Venture Division

One of the most attractive features of the NVD concept is its scalability. Small companies might begin with one division, while larger companies with greater financial and human resources could establish many such groups, each focused on separate markets, industries, or general product lines.

Furthermore, as additional NVDs are created, an interesting phenomenon occurs. Organizational learning increases the efficiency of operations while, simultaneously, the attendant project diversification reduces overall risk to the company. This is analogous to the idea of portfolio theory (Hamel, 2000): as more new projects come into being, total risk is increasingly diversified away.

Given the potential financial windfall from successful discontinuous innovation, the company would be well served by establishing additional NVDs as it grows. Doing so significantly ups its chances of hitting upon a revolutionary new product or service that redefines markets and the nature of competition in a truly Schumpeterian (Schumpeter, 1934) sense.

The go-to-market strategy for new products then becomes an important operational issue for the ambidextrous corporation. How will radical innovations be commercialized and distributed? Through existing marketing channels or via some parallel structure within the NVD? Whichever alternative is chosen, cost and efficiency issues should predominate. Corporations ought to recognize, however, that "with almost no exceptions, disruptive innovations take root in free-standing value networks – with new sales forces, distributors and retailing channels" (Christensen, 2002: p. 38).

It is equally important to strike the proper balance between unconstrained innovative thinking and the identification of opportunities with actual commercial potential. Financial resources allocated to the NVD should be 'patient' in that a realistic timeline for return on investment is allowed. At the same time, however, a definite payback period should be specified for any new innovation.

Extra-Organizational Linkages

The issue of external linkages also merits attention. The functional work teams described above should create links to outside groups such as industry associations. This access to valuable sources of information concerning current industry practices could then foster additional creative ideas.

In addition, channels of communication must be created along the entire value chain, from suppliers through to customers. These actors are ideally placed to pass along thinking that results in minor – yet crucial – product improvements. Indeed, customers should be enlisted to ascertain what changes they desire in current company offerings. The firm can facilitate these linkages where relationships with extra-organizational actors have already been established in the regular course of operations.

As for the New Venture Division, links must be created with universities and other sources of "blue-sky" research. Developing relationships with actors at the forefront of scientific thought would provide the NVD with potentially profitable sources of radical innovations ready to be commercialized.

Whether the goal is continuous or discontinuous innovation, the establishment of these outside links is vital. This notion ties in closely with the concept of clusters (Porter, 2000). Such interconnections "represent an important forum in which new types of dialogue can and must take place among companies, government agencies, and institutions" (Porter, 2000: p. 16).

Exhibit 2 contains a graphical representation of the reporting structures and linkages designed to promote corporate Entrepreneurship.

ORGANIZATIONAL CULTURE CONSIDERATIONS

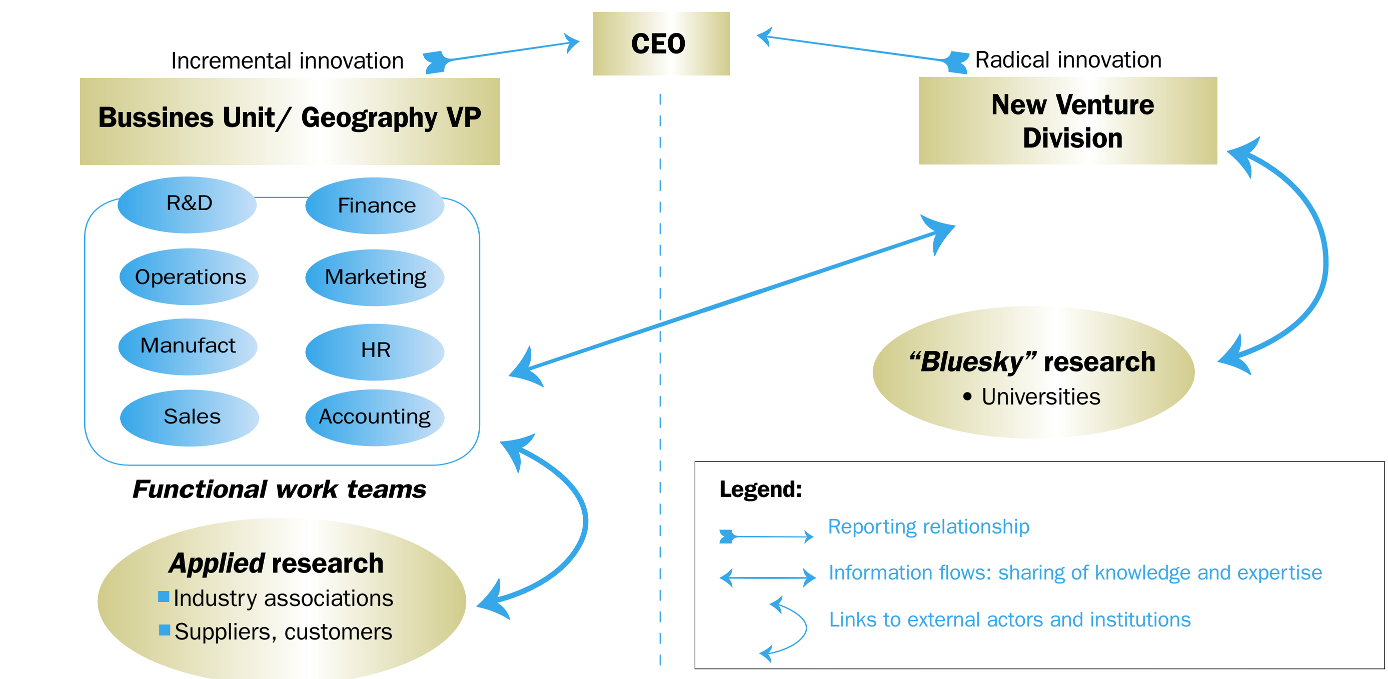
Proper alignment of company culture is one of the most important determinants of success of this proposed design (Thornberry, 2003; Morris, 1998). No matter how sound our initiative, it will languish and ultimately fail if faced with an unreceptive internal culture.

The organizational culture associated with continuous innovation must provide for structured roles and responsibilities, centralized procedures, and task efficiency (Eisenhardt and Tabrizi, 1995; Tushman and Nadler, 1986). This ensures that new ideas, while continually encouraged, do not disrupt existing (profitable) work flows and production methods. Innovation can then be channelled through well-defined internal routes and easily incorporated into current operations.

The culture in the New Venture Division, conversely, should prioritize non-standardized job roles, decentralization, risk-taking, and creativity (Tushman et al, 1997). The aim of this division is to identify and develop radical new opportunities, a goal often incompatible with solely output-oriented directives.

It should also be noted that corporate Entrepreneurship can in some measure precede large-scale cultural change in the organization. The company need not wait for an overall reorientation in culture to pursue innovation, since "successful ventures can develop in non-entrepreneurial companies with the right kind of tactical interventions" (Thornberry, 2003: p. 341). As these interventions succeed and cultural change begins to take root, new projects will increasingly be facilitated.

EXHIBIT 2: REPORTING STRUCTURES TO FACILITATE CORPORATE ENTREPRENEURSHIP



MEASURING THE TANGIBLE BENEFITS OF CORPORATE ENTREPRENEURIALISM

Rationale for the Overall Approach to Measurement

A superior return on investment is the essence of Entrepreneurship. By definition an entrepreneurial firm should generate a rate of economic return beyond that of competing non-entrepreneurial organizations. Assuming an all-equity company, return is calculated as follows:

FIGURE 1: RATE OF RETURN OF AN ALL - EQUITY FIRM

$$r_e = r_f + B(r_m - r_f)$$

r_e= rate of return on equity
r_f= risk-free rate
r_m=market rate of return
B=beta of the firm

Economic return occurs when return on equity (ROE) exceeds r_e. Firms able to generate a return exceeding r_e create value above and beyond what is expected of their asset base. We take this to be the mark of a truly entrepreneurial organization.

We can illustrate our assertion that economic value is created when ROE > r_e through the concept of residual income, which represents the net income remaining for the firm's owners after cost of capital is deducted.

FIGURE 2: DEFINING ECONOMIC RETURN

First we define Residual Income:

$$RI = NI_t - r_e CE_{t-1} \qquad (1)$$

We then divide equation (1) by CE_{t-1}:

$$RI / CE_{t-1} = NI_t / CE_{t-1} - r_e CE_{t-1} / CE_{t-1}$$
$$RI / CE_{t-1} = NI_t / CE_{t-1} - r_e$$
$$RI / CE_{t-1} = ROE - r_e$$
$$RI = (ROE - r_e)\, CE_{t-1}$$

This implies that a firm will only generat positive RI or "economic return" when:

$$ROE > r_e$$

RI= Residual Income
NI_t= Net Income at time t
CE_{t-1}= Firm's cumulative equity at time t-1
r_e= Rate of return on equity
ROE= Return on Equity = NI/CE_{t-1}

Measuring Corporate Entrepreneurship

While examining residual income helps us to assess corporate Entrepreneurship in an organization, much entrepreneurial activity is in fact intangible. It will be found in employee mindsets; their "creativity, commitment, dedication and a desire to innovate are common behavioural norms" (Kuratko et al, 2001: p. 65). These sources of entrepreneurial spirit cannot be measured by financial formulae alone.

Adding to this consideration, it would be incorrect to assume that all residual income is solely the result of entrepreneurial action. A portion of it may well accrue from external economic factors such as unexpectedly positive market demand. We therefore adjust for this possibility in our analysis below.

To assess the true level of corporate entrepreneurial spirit, we employ a tool constructed by Kuratko, Montagno, and Hornsby (KMH). These authors conducted a statistically significant study (Kuratko et al, 1990) to identify the qualities – reproduced in **Exhibit 3** – most often possessed by entrepreneurial firms.

EXHIBIT 3. ORGANIZATIONAL FACTORS THAT ENCOURAGE ENTREPRENEURIALISM

1) Management support for intrapreneurship (corporate Entrapreneurship)
- Management encouragement for activities
- Decision-making power
- Senior Managers encourage bending rules
- Top management sponsorship
- Individual risk-takers are often recognized whether eventually successful or not
- Encouragement for calculated risks
- 'Risk-taker' is considered a positive attribute
- Small and experimental projects are supported

2) Organizational structure
- Second chances after mistakes
- Mistakes as learning experiences
- Difficulty in forming teams
- Concern for job descriptions
- Defining turf is important

3) Resource availability
- Availability of funds
- Lack of funding
- Problems with company budget process
- Addititonal rewards compensation
- Options for financial support
- Problem solving time with co-workers

Source: Kurato et al, 1990

Statistical analysis of company information gathered through surveys and interviews should be conducted to measure the degree to which these attributes exist within the organization. A quotient valuefor each KMH factor will first be derived. Combining the (R-squared) values of the three factors yields an overall KMH quotient for the corporation, which is then normalized to a number between 0 and 1.

Based on KMH's findings we believe that firms with higher entrepreneurial quotients will also have higher residual income. As previously stated, however, we cannot arbitrarily link all residual income solely to corporate Entrepreneurship. To assess the specific amount of residual income resulting from Entrepreneurship, we further refine the overall KMH quotient as follows for hypothetical firms A and B:
In this example, Firm A can legitimately claim that $3.55M of the residual income produced over the relevant timeframe is the result of entrepreneurial actions. A less entrepreneurial firm, such as Firm B (KMH quotient of 0.50), could only claim a smaller proportion of residual income as the product of Entrepreneurship. Alternatively, Firm B needs to generate correspondingly more total residual income by "extra-entrepreneurial" means to offset this lower quotient.

mental product innovations.
For the New Venture Division, the establishment of a separate rewards structure is necessary to generate the required radical innovations. The NVD would be best served by a larger variable pay zone and, where appropriate, the awarding of an equity stake in any spin-off venture resulting from innovation (Thornberry, 2003).

Exhibit 4 shows a proposed compensation model for both the functional work teams and the New Venture Division.

In summary, we believe that our recommendation for measuring corporate Entrepreneurship provides invaluable aid in determining the level of such activity – and its attendant benefits – within the organi-

FIGURE 3: HOW MUCH OF THE RESIDUAL INCOME OF AN ORGANIZATION IS THE DIRECT RESULT OF ENTREPRENEURIAL ACTIONS?

Hypothetical results for each company calculated from survey and interview data:
Firm A
- Management Support= 0.76
- Organizational Structure= 0.69
- Resource availability= 0.68

Total KM H quotient= 2.13
Overall KMH quotient= 2.13/ 3 = **0.71**

	Overall KM H Quotient	Residual Income Corporate	Residual Income Specifically dueto Corporate Entrepreneurship
Firm A	0.71	$ 5.00 M	0.71* $ 5.00M =$ 3.55 M
Firm B	0.50	$ 2.00 M	0.50* $ 2.00 =$ 1.00 M

This analysis expresses the amount of residual income that is specifically due to corporate Entrepreneurship within the firm
For example, $3.55 M of Firm A 's residual income is directly the result of specific entrepreneurial actions (management support, organizational structure, resource availability)

Building a System of Corporate Incentives

The approach above helps us to identify the monetary benefit specifically derived from corporate Entrepreneurship. This method therefore also proves useful in developing an incentive system to reward entrepreneurial employees. Studies (Kuratko et al, 2001) have confirmed that the most effective way to encourage entrepreneurial behaviour is through incentivization. We will now show how our proposed measurement system can be used to reward employees for entrepreneurial actions (see figure 4).
In the illustration below, the $3.55M in residual income at hypothetical Firm A is disaggregated and attributed to each KMH factor. The organization is then in a position to provide awards to employees equitably according to the level of entrepreneurially-driven residual income that their actions produced.
Given the pervasiveness and power of computerized analysis tools, such a study can undoubtedly be executed with a reasonable investment of time and money. The potential reward for the organization in building, measuring, and refining its entrepreneurial culture is immense.

Incentives for Incremental and Radical Innovation

To encourage a spirit of collaboration and results-driven thinking in the functional work teams, base compensation should be supplemented with rewards based on actual results. In effect, the KMH Entrepreneurship analysis above would determine the performance bonus accruing to teams that successfully identify and develop incre-

zation. It also creates a better understanding of the intangible quality of corporate Entrepreneurship, which is often substantial. Finally, our proposed compensation model encourages the development of corporate Entrepreneurship by explicitly tying rewards to the degree of incremental and radical innovation present in the organization.

TOWARDS THE FUTURE: THE EVOLUTION OF THE ENTREPRENEURIAL ORGANIZATION

How should the organizational structure adapt to changing circumstances so as to support corporate Entrepreneurship over the long term?
One solution is to allow and even encourage present-day functional work teams to evolve into full-fledged New Venture Divisions in their own right. As the functional teams work on successive incremental innovation initiatives, members can be expected to glean many relevant insights into product characteristics and markets.

A sensible next step would then be to allow these teams to use such insights (as well as their own increasingly entrepreneurial mindsets) to begin to examine potential new products and services for the organization – in short, to allow them to focus on radical innovation.

Encouraging the organic development of additional NVDs focused on specific technologies, industries, or product lines will imbue the organization with new and far-ranging competencies. This will serve

FIGURE 4: INCENTIVIZATION OF CORPORATE ENTREPRENEURSHIP

	Overall KHM quotient	Residual Income	Residual Income Specifically due to Corporate Entrepreneurship
Firm A	0,71	$5.00M	0.71*$5.00 M=$3.55 M

Total KM H quotient of 0.71 is arrived at by averaging the three KM H factors below

KM H Factor (Entrepreneurial Action)	KM H Quotient per Factor	Weighted Portion of RI ($3.55M) related to each entrepreneurial action	Payout 10% of this Profit to Employees Responsible for entrepreneurial Actions
Management Support	0.76	(0.76/ 2.13)*3.55=**$1.27 M**	$127 K to managers who backed risky projects
Organizational Structure	0.69	(0.69/2.13)*3.55=**$1.15 M**	$115 K to employees whose team projects brought incremental innovations to market
Resource Availability	0.68	(0.68/2.13)*3.55=**$1.13 M**	$113 K to employees who undertook risky R&D (succeeded or failed)
Total KM H Quotient	**2.13**		

EXHIBIT 4: INCENTIVES FOR CONTINUOUS AND DISCONTINUOUS INNOVATION (PERCENTAGES OF TOTAL COMPESATION BY MAJOR ITEM)

	Functional works teams	New venture division
Base pay (%)	75%	50%
Variable pay– Performance bonus (%)	20%	40-45%
Other compensation (%)[1]	5%	5%
Equity in spin-off Venture (%) (where appropriate)	0%	0-5%
Total compensation	**100%**	**100%**

(1)"Other Compensation" may include pension, health and dental insurance benefits and other non-cash remuneration

to increase the amount of discontinuous innovation in the company, with positive implications for future success and profitability.

CONCLUSION

Exhibit 5 summarizes the structural and cultural distinctions highlighted in this paper between the functional work teams and the New Venture Division.

Institutionalizing dynamic innovative tension allows the organization to sow seeds of both short-term incremental improvements and longer-horizon, frame-breaking (Stopford and Baden-Fuller, 1994) innovations. In this way, resources are brought to bear on promising projects and a culture of corporate Entrepreneurship takes hold, contributing significantly to organizational longevity and success.

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EXHIBIT 5: SUMMARY OF STRUCTURES TO DRIVE CORPORATE ENTREPRENEURSHIP

	Functional work teams	New Venture Division
1 Type of innovation	Continuous (incremental)	Discontinuous (radical)
2 Organizational structure and mechanisms to encourage Entrepreneurship	▪ Embedded work teams focused on tactical issues	▪ Stand-alone unitswith looser version of the larger corporation's existing functional structure
▪ Go-to-market strategy for new offerings	▪ Use of existing corporate marketing and distribution channels	▪ Use of existing channels OR creation of new infrastructure for each discontinuous innovation? Cost and efficiency considerations
▪ Extra-organizational linkages	▪ Focus on applied research (industry associations value chain members-suppliers and customers)	▪ Focus on "blue sky" research (universities)
▪ Internal linkages	Sharing of knowledge and expertise between work teams and NVDs	
3 Cultural aspects	▪ Structured roles and responsabilities ▪ Centralized procedures ▪ Premium of efficiency	▪ Non-standardized job roles ▪ Autonomy and descentralization ▪ Premium on creativity and experimentation
	KMH quotient calculation to assess level of corporate entrepreneurialism	
4 Messurement of benefits from corporate Entrepreneurship	▪ Amount of residual income driven by entrepreneurial activities	▪ Amount of residual income driven by entrepreneurial activities
▪ Corporate incentives	▪ Performance-based rewards driven by level of incremental innovation	▪ Larger variable incentive pay zone ▪ Equity stake in spin-off ventures (when appropriate)
5 Evolution	▪ Development into more tightly-focused New Venture Divisions	▪ Increasingly specialized focus (industry, product line, technology) based on development expertise

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Turning managers into leaders

A South African perspective on corporate Entrepreneurship

1. INTRODUCTION

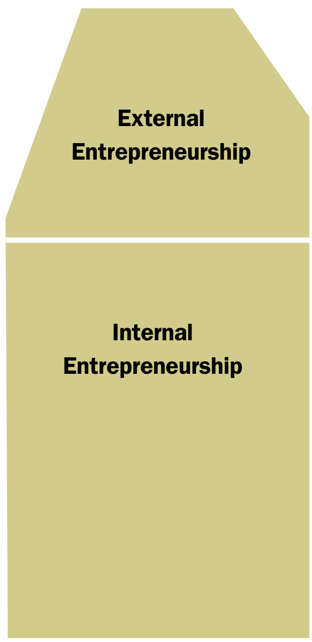
At first glance, the term corporate Entrepreneurship sounds like an oxymoron of considerable proportions. Corporates all over the world are renowned for encouraging and rewarding conformance to existing standards of performance and behaviour, cloning most of their employees into replicas of their predecessors in the name of continuity and preservation of corporate culture.

Very often, the more entrepreneurial spirits amongst us have to parachute ourselves out of stifling corporate environments in order to make a success of our ideas and dreams.

However, on closer inspection, corporate Entrepreneurship emerges as a possible antidote to the problems facing businesses that wish to address stagnation and achieve a sustained competitive advantage. According to Michael Porter, competitive advantage is about choosing the right unique mix of activities that set the organization apart from the rest the pack in terms of its products and services (Porter, 1996). So what is corporate Entrepreneurship and what about it is changing the landscape of doing big business in the new millennium?

Corporate Entrepreneurship is often defined as the effort to extend an organization's competitive advantage through innovations that significantly alter the balance of competition within an industry or create entirely new industries (Ferreira 2002. 2). This resonates very well with the findings of a study by Zahra and Covin (1995), which identified a very strong linkage between corporate entrepreneurial behaviour and subsequent financial performance. The literature makes a distinction between two types of corporate Entrepreneurship. The first is a set of focused activities which involve innovation and venturing into new products, new markets, and may include the redefinition of industry rules. The second type is internal renewal initiatives that enhance the organization's ability to compete and take risks. We use the analogy of the iceberg (**table 1**) to illustrate the distinction between external Entrepreneurship which, like the tip of the iceberg, is visible to competitors and internal Entrepreneurship, the activities that occur below the surface.

TABLE 1:
CORPORATE ENTREPRENEURSHIP ICEBERG



- New products and services
- New ventures and diversification
- New markets or industry rules

- Visionary Leadership
- Structures and Systems
- Mindsets and Behaviours (Culture)
- Organizational renewal activities e.g. new combinations of resources

Source: Fishman, C: Creative Tension, ©November 2000, Fast Company issue 35

This paper seeks to explore the burgeoning phenomenon of corporate Entrepreneurship, the structures and behaviours that drive and nurture it as well as how its value to businesses today can be measured. This is even more relevant in the South African context, where we have undergone very significant change from a command and control culture that stifled creativity and competitiveness to a more open and diverse society that wishes to empower individuals to take charge of their own destinies. We therefore look at the South African context specifically, and make recommendations on how businesses can foster corporate Entrepreneurship and contribute to the country's positioning as a force to be reckoned with in the global arena.

2. CHARACTERISTICS OF ENTREPRENEURIAL ORGANIZATIONS

Innovation must be the cornerstone of any organization that wishes to earn the title of corporate Entrepreneurship. In today's unpredictable world, organizations that try to prolong the life of a successful product or practice rather than looking for the next opportunity may well become obsolete (Drucker 1992). Stopford and Baden-Fuller (1994, p. 522) observed that most authors accept that all types of Entrepreneurship are based on innovations.

However, a focus on innovation is not the only attribute of the entrepreneurial organization. Referring to the illustration of the iceberg, we see that these characteristics point to two types of Entrepreneurship, namely internal and external. Covin and Miles (1999) label these forms as sustained regeneration, strategic renewal, domain redefinition and organizational rejuvenation.

Sustained regeneration refers to the organization continuously introducing new products and services or entering new markets. Strategic renewal refers to deliberate and major repositioning of the company strategy. Domain redefinition is when the organization proactively creates a new product market that others have not recognized or actively sought to exploit. These forms mentioned all refer to the visible part of the iceberg, i.e. the actions that are apparent to the market.

Organizational rejuvenation is the part below the surface. This is when the organization actively seeks to sustain or improve its competitive standing by altering its internal processes, structures and/or capabilities. While these characteristics allow one to recognize the entrepreneurial organization, the more important observation must be what structures and behaviours support this level of competitiveness.

3. STRUCTURES AND BEHAVIOURS THAT SUPPORT CORPORATE ENTREPRENEURSHIP

Traditionally, and certainly in South Africa, organizations are structured along hierarchical lines. This is very common in large organizations where this structure is typically used to direct the flow of work and to monitor and control. Inherent in this structure is that decisions are usually not made very quickly and rest with a select group of individuals at the top.

In contrast, the entrepreneurial organization cannot flourish in this command and control structure, as it needs activities that promote agility and allow quick decision-making and speedy execution. According to Taylor (2001), large corporations can only achieve this agility by re-organizing into smaller units and through a radical delegation of powers to local boards and managerial teams. Therefore, decentralization is also necessary for innovation. Innovation usually comes about as a result of being close to the market, being immersed in the detail, and a decentralized structure can promote this more specific focus.

In conjunction with seeking new opportunities, it is also necessary for entrepreneurial organizations to foster activities that challenge the status quo. This is necessary since the elimination of tasks that do not represent a long-term sustainable competitive advantage is needed. In contrast to the traditional organization where managers are in part rewarded for adherence to the standards, the entrepreneurial organization must foster a climate where individuals feel comfortable to challenge the way business is done, even if it is a successful product or practice. As Joseph Schumpeter (1962) suggested, Entrepreneurship is indeed a process of creative destruction. Individuals must be allowed to experiment with new ideas, and in doing so may find lucrative opportunities. However, some ventures may also fail and this must be associated with the context in which it occurred and not necessarily with the individual. In a culture where mistakes are not tolerated and where blame is allocated, weaknesses in the system will usually be covered, thereby preventing critical improvements and fostering a fear of testing new opportunities.

4. THE SOUTH AFRICAN PERSPECTIVE

South Africa has had a long history of an oppressive and protectionist government whose goal was to confine competitive economic activity and wealth creation to a minority. Through the apartheid system and a military type rule, the South African government created a nation of compliant individuals who depended on the government to control their destiny. The white minority was protected by the government through reserved employment opportunities and laws that prevented black people from participating fully in the economy. The oppressed black majority's creativity and internal locus of control was stifled by a regime that restricted their participation in the economy to subservient roles such as labourers, housekeepers and farm workers. Furthermore, the unintended consequence of economic sanctions was that South African companies were protected from external competition. Therefore, wealth tended to be concentrated in the hands of a few companies that became experts at negotiating their position in the market through alliances with the government and NOT through innovation and competitive advantage.

With the dawn of democracy in 1994, the new regime has had to put in place concrete mechanisms in order to foster a national culture of Entrepreneurship in order to nurture competitiveness, combat the high unemployment rate which stands at 40% (Census, 2002), and reduce dependence on the state for economic growth. The following strategies are examples of the mechanisms that South Africa has put in place:

a) Employment Equity legislation is aimed at increasing diversity within organizations not only to redress the inequities of the past but also to foster diversity of ideas.
b) Black Economic Empowerment is geared towards increasing the participation of the previously disadvantaged majority in the mainstream economy
c) The GEAR macro economic strategy (the government's approach to growth, employment and redistribution of wealth which aims to transform South Africa into a competitive, outward-oriented economy that encourages innovation through products and services)

As a result, South Africa improved its competitiveness ranking, climbing two places to 32nd out of 80 countries in the World Economic Forum's 2002 competitiveness index, boosted by its performance in the technology rankings, where it jumped eight places from 46 to 38.

While improvement can be seen on this front, South African corporates still have a long way to go towards adjusting their strategies to align with the changes being made by the state. Indications are that most South Africans are still not as entrepreneurial as their counterparts in other emerging markets (South African GEM Study 2003).

It is our belief that these companies can benefit tremendously by drawing on the rich concepts that already exist in the South African socio-cultural context and in global literature and best practice, in order to drive and nurture entrepreneurial behaviour in individuals and teams and improve their own competitive positioning in the global arena.

5. STRUCTURES AND SYSTEMS THAT FOSTER CORPORATE ENTREPRENEURSHIP

a) Diversity

The introduction of diversity via employment equity legislation has brought about a process of creative destruction to the traditional South African companies which others can learn from. Most South African organizations have become a melting pot of diverse perspectives borne out of different cultural backgrounds. This diversity, has given rise to new opportunities for innovation and Entrepreneurship. As the traditional cultural and racial barriers between teams and individuals are being destroyed, so new energy and creativity can be harnessed to the benefit of the organization.

b) Visionary Leadership

The optimal use of the new energy to the organization's benefit requires visionary leadership with the ability to strike a balance between deliberately creating the kind of chaos that sparks creativity and the rigour and discipline that is required to channel this towards improved competitiveness and ultimately financial performance. By allowing creativity and innovation to thrive, the leaders of the organization would need to have defined the vision clearly enough for it to be autonomously implemented by managers and staff.

c) Space for Creative Ideas to Develop

Fostering a culture of corporate Entrepreneurship is about creating the space for stimulating ideas to bubble up from individuals. This implies that individuals who are required to innovate should not be bogged down by routine work and tied down by bureaucracy. Ideas can be further enriched by social interaction and facilitated conversations within teams. The concept of scaffolding in scenario planning comes to mind, where tacit, intangible ideas imbedded in an individual's thought process are turned into explicit shared ideas (van der Heijden, 1997, 6-7).

TABLE 2: CORNING'S FIVE STEPS: FROM INSPIRATION TO EARNINGS

- **An idea or inspiration forms:** Before going much further, a team builds up as much preliminary knowledge as possible.
- **Experimentation tests the feasibility of the idea:** Is it borne out in the lab? Is there a reasonable product possible from the idea?
- **Feasibility is one thing – practicality is another:** At this point, an idea has morphed into a product, and there is a formal team working to overcome manufacturing and marketing hurdles.
- **Production and profitability are explored.** Even if a good idea becomes a good product, can it be manufactured reliably? Can it be produced at a cost that will allow it to earn a profit in the market?
- **Profitability is examined in light of the product life cycle:** Once a product is on the market, how do you stay ahead of competition? This question may take the R & D staff back to step 1.

Source: Fishman, C: Creative Tension, ©November 2000, Fast Company issue 35

A similar concept is that of Ubuntu, a Zulu term for interdependence. Literally it means “people are people because of others”. When used appropriately within organizations, it can lead to the kind of social interaction that triggers new ways of thinking. Structures that support a culture of innovation and creativity must, therefore, include the use of project teams for specific business activities that contribute to the competitive advantage of the company.

d) Risk Taking Mindsets and Behaviour

Focus should be given to structures that support research and development and allow individuals to take risks and experiment with new ideas. This type of culture is illustrated by Corning Glass, where scientists are encouraged to explore new projects, even if a current market for the proposed product does not exist. However, this exists alongside a very clear process for channelling innovation towards boosting the company’s earnings. The five-step model used by their Sullivan Park Research facility is illustrated in **Table 2**. (Fishman, 2000:12).

e) Continuous Learning, Development and Renewal

The very nature of corporate Entrepreneurship requires individuals who constantly improve and develop themselves, and it is to this that South African corporations, and indeed corporations all over the world, should be paying attention. Allowing these individuals’ opportunities for personal growth can foster a culture of constant unease with the status quo which gives rise to mindsets that are obsessed with continuous improvement and staying ahead of the game. Furthermore, this can contribute significantly to employee commitment to the organization. Retaining innovative staff members is less costly than employing and developing new individuals.

f) Reward Systems

All the above mechanisms need to be linked to a reward structure that encourages Entrepreneurship. A good example of such a structure is a profit-sharing mechanism that supports the distribution of profits that have been made as a result of a specific idea. By linking profit-sharing with team projects, this creates incentives for individuals to directly benefit from their own innovations. This is a more personal sense of achievement, not unlike that experienced by the individual entrepreneur starting a business.

6.MEASURING THE BENEFITS OF CORPORATE ENTREPRENEURSHIP

a) Financial Performance

The aforementioned are some ideas that we believe South African and other corporations all over the world can use to develop corporate Entrepreneurship. However, it is also very important to be able to measure the benefit of these changes to the organization. The most widely used measure of success is of course the changes to the financial performance of the organization. We would like to stress that this measure of performance must be seen in the context of the long term, as a short-term focus on profits can stifle innovation and creativity. This is an issue that the traditional corporates battle with, i.e. wanting to invest in new opportunities while having to meet short-term financial targets.

b) Staff Retention

Another measure of success that can be used is in the form of staff retention. The staff turnover rate is a good indication of how well the organization is retaining innovative staff. If innovative staff is staying with the company for long periods, clearly the company has fostered the right conditions under which creativity can thrive and where individuals feel that their ideas are valued.

c) Speed to Market

Speed to market is quite often another challenging issue for big businesses. One would expect that in the corporate entrepreneurial organization which is structured for speed and agility, the time to market would be significantly lower. It is a measure of how well a company is able to continuously improve its operational effectiveness through projects completed on time in order to deliver on its promise to customers ahead of the competition.

d) Market Position

Competitive advantage is another important measure that deserves attention. Measurements such as the growth in the organization’s market share can help the organization keep track of whether its entrepreneurial endeavours are contributing to its position relative to competitors.

CONCLUSION

Corporate Entrepreneurship seems at best to be a paradox of creation and destruction. While structures and processes are necessary to channel the energy generated and to measure the value added to the organization, we believe that visionary leadership is the critical success factor of any organization that wishes to adopt entrepreneurial behaviour. This type of leadership requires the ability to successfully create conditions of uncertainty and ambiguity that trigger innovative ideas while at the same time inspiring individuals to achieve their full potential as well as contribute to the company’s bottom line. The leader must encourage creative destruction and allow order to emerge from the chaos (Pascale in Webber, 2001). Open and constructive feedback must be rewarded and in doing so a climate of trust, respect and professionalism will be created. To inspire individuals in an organization with passion and commitment is a more powerful competitive advantage than most of us realize. Effective leaders do not seek stability; instead, they search within their organization for the ‘hidden’, ‘self-organizing principles’ rather than impose organization upon the system (April, McDonald, Vriesendorp, 2000).

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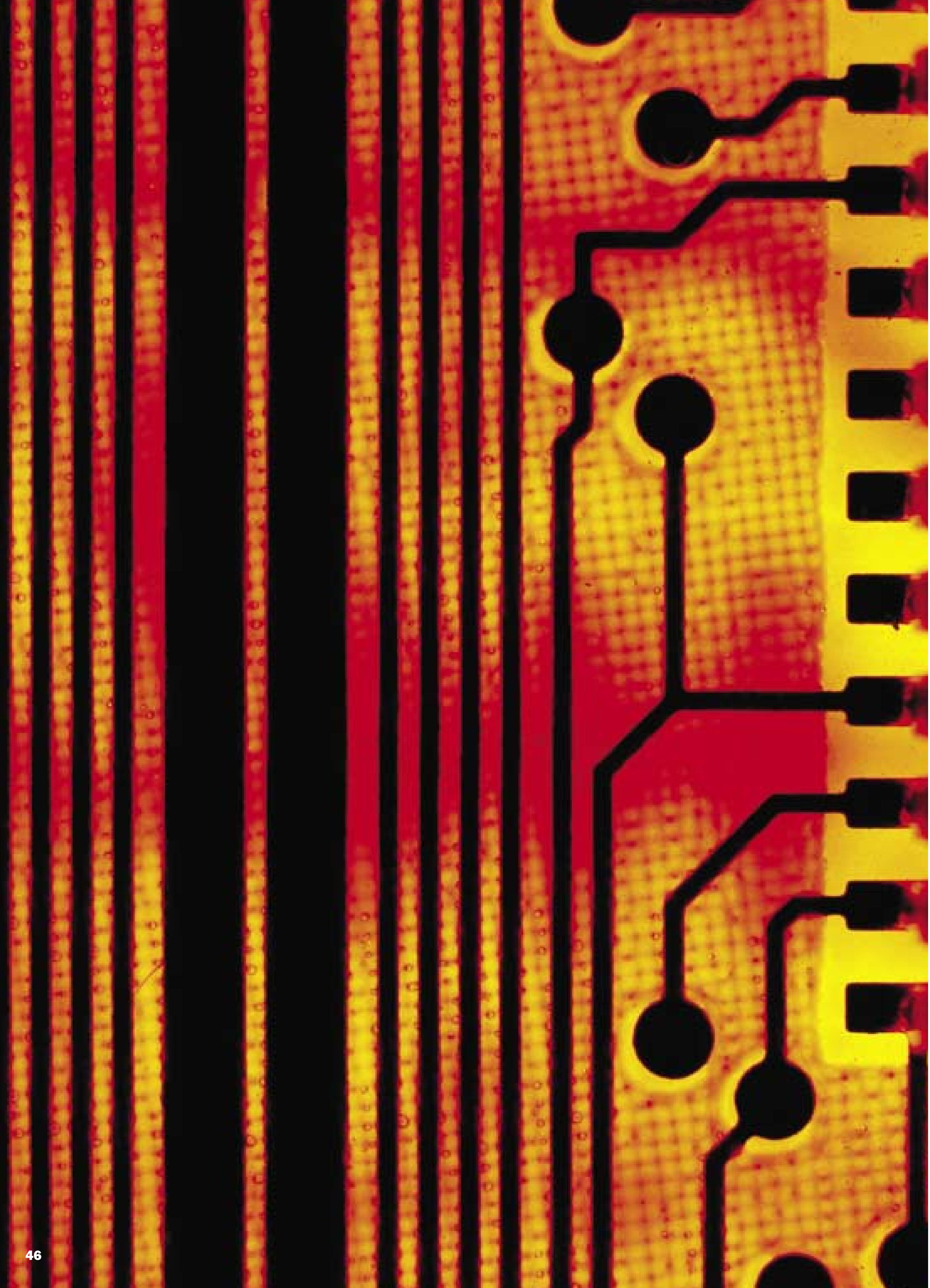

HONG KONG UNIVERSITY OF SCIENCE & TECHNOLOGY
BY BOISSET GUILLAUME, LIU BING, LUO CHI

The Internal Growth Engine

New Strategies for Promoting and Exploiting Corporate Entrepreneurship

INTRODUCTION

With corporations recovering from the corporate governance (CG) disasters of 2002, attention is now returning to corporate Entrepreneurship (CE) and its benefits in creating shareholder wealth. Within a company, CE and CG can be seen as flip sides of the same coin since clamping down too hard on corporate governance runs the risk of going too far and undermining corporate Entrepreneurship.

We put forward two concrete proposals to promote CE within a corporation while maintaining good CG. Implementing the proposals will help the corporation address the two key facets of CE which are, first, to introduce new products and services within and without the corporation to create wealth, and, second, to facilitate the board's duty to perform strategic realignments if fast-moving market conditions call for it. Specifically, for a corporation to better harness internal entrepreneurial activity, we propose 1) creating a new meritocratic entrepreneurial culture by launching appropriately-sized venture funds within the corporation, encouraging individuals and small teams to bid for part or all of these funds in periodic CE contests, having peer review mechanisms recommend first-round selections of these projects, and providing objective feedback; 2) having appropriately chosen entrepreneurs and reviewers periodically report to the Board of Directors (BoD) to help it identify opportunities for the firm's strategic renewal.

BACKGROUND

The Entrepreneurship vs. governance balancing act can be stated as follows. On the one hand, giving too much free rein to individual Entrepreneurship at the expense of governance within a company may lead to catastrophic destruction of wealth, as was seen at "entrepreneurial" corporations such as Enron and WorldCom (Taylor 2003). On the other hand, CE is a powerful force for creation of wealth, and stifling CE will lead to lost opportunities for creating this wealth. (Guth and Ginsberg, 1990). The key is to allow for as much initiative, innovation and trial, error, and learning as possible, while ensuring that real decisions involving large or potentially even unbounded sums of money are taken within a disciplined structure. Our proposals directly address this balancing act.
CE has been defined in many ways and has many aspects. (Ferreira, 2001, Zhara 1996, Dess et al. 2003) However, most definitions address two key facets. The first facet deals with creating new products or services that can either be used within the company to enhance internal efficiency and processes, or be sold outside the company to bring additional earnings to the company. The second facet addresses strategic renewal of a firm, and how to identify and capture new trends within or near a company's current markets (Zahra 1996).

CE: NEW PRODUCT OR SERVICE ENTREPRENEURISM

There are four key features to the first proposal that we recommend should be implemented in companies wanting to promote CE: 1) supporting initial ideas of corporate entrepreneurs by letting them bid for internal capital to pursue the idea, 2) appropriately sized venture funds inside the company to supply this capital 3) peer review to evaluate the plans 4) feedback mechanisms.

Initial Idea of Entrepreneur

The creation of new ideas in most corporations can be modelled as stochastic events with a given rate (Drucker, P F, 1985). The problem therefore is not so much the creation of the ideas as the selection of the best ideas and their backing. Unfortunately, imposing the job of scanning for new ideas on an already overburdened management would be overwhelming, as this takes too much time (Barringer and Bluedorn, 1999).

Under our proposal, when a would-be corporate entrepreneur or team of entrepreneurs have an idea, they first push it as far as their other commitments and access to underused company resources allow. However, when they need new scarce resources, such as time, equipment, or money, they can either ask their supervisor for additional resources, or they can compete for the funds by submitting their plan to the firm's venture website (with the requirement that they cc their supervisor) in an effort to achieve the highest score and thus obtain capital from the internal venture fund to further develop the idea.

Internal Venture Funds

We propose that, each period (e.g. month, quarter), a certain percentage of the company's annual revenue be set aside as internal venture funds. The following discussion outlines how the appropriate amount can be determined.

Initially, the value of the portfolio of products and services resulting from CE can be inferred by the difference between a company's market and its book value (Vale and Addison, 2002). The greater this difference, the more a firm must innovate and take risks to justify maintaining this gap in the future. Additionally, the degree of risk and volatility of an industry can be estimated by the industry's "beta", and we propose that the greater the risk of the industry, the more the company must invest to stay competitive. As such, the higher the difference between book and share value and the greater the risk in an industry, the greater the capital a company should set aside for CE ventures. The amount allocated to the venture fund should thus be as follows:

$$\text{VCAP} = k \times \text{MTB} \times \beta \times \text{REV}$$

Where

VCAP is the venture capital set aside by the company for the internal competitions

MTB is the ratio Market value to Book value (MTB). This can be interpreted as either a) an actual stock price or b) company management's desired target stock price for a given book value,

β is the variation of company or industry stock prices relative to an index.

REV is the company's annual revenue, and

k is a scaling factor representing how much capital the company decides should be allocated to the internal venture fund for entrepreneurs to compete for, as proposed in this work.

Peer review and scoring: mechanism and structure

Our proposed peer review system for judging ideas is a combination of the vetting performed for academic refereed journals and the user's "scoring" system used in commercial online communities such as eBay, and works as follows. The entrepreneur team or individual writes a plan with the following elements: project description, required investment, expected payback, and timeline. The plan is then submitted to the internal corporate website which gives the plan a tracking number. These plans accumulate; at the end of the period (the "round"), each plan is sent out to three different peer reviewers within the company, who have one week to give the plan a score of 1 to 100 according to established criteria, such as their evaluation of the plan's return on investment, marketability, and so on. The reviewers can also include comments and feedback, if desired, to improve the idea for perhaps re-submission in a subsequent round. Every entrepreneur is known only by a code name and reviewers will be able to view an entrepreneur's track record on previous proposals while still maintaining anonymity.

As our example shows in Table 1, the plans are ranked at the end of each peer-review round; the entrepreneur individual or team with the highest scoring plan has first access to the monthly quota of the venture fund and is allowed to take as much as they have requested in their plan. If any money is left over, the second highest-scoring plan takes what it needs and

TABLE 1. SAMPLE OF PEER AND FUND ALLOCATION

Project	Score 1	Score 2	Score 3	AvgScore	$ request	$ obtained
A	81	83	85	83	400,000	-
B	94	93	92	93	600,000	600,000
C	90	91	89	90	300,000	300,000
D	87	86	85	86	200,000	-

Total venture fund size: $1,000,000

so on until no money is left in that period's quota of the venture fund. No partial disbursements are allowed: leftover money is rolled-over to the next round.

Choosing the reviewers is a critical task and is done as follows. First, only people who have submitted ideas in the past can be peer reviewers (except for BoD members as explained below). Acceptance of future peer review responsibilities is one of the few conditions to submitting plans on the web site. Second, no one may review if they have a proposal currently in the round, to prevent negative bias. Third, the allocation of referees at first would be random: as such, it would not be uncommon if an engineer's proposal were reviewed by, say, an accountant, a marketing analyst, and another engineer in another department of the company. Fourth, over time, the score of different reviewers could be given more weight if some reviewers acquire a track record of successively giving high scores to plans that eventually went on to be successful, and vice-versa. Successful entrepreneurs could also receive high rankings and favourable treatment in the future.

There are several benefits to the proposal.

The first benefit is that it creates a relatively low-risk, effective delegation mechanism for overworked bosses: entrepreneurial-minded people, namely people who had previously submitted ideas, are engaged in the idea-reviewing process; at the same time, the financial commitment remains bounded by the size of the venture fund.

Another major benefit of peer-review is the nature of the reward with which it provides corporate entrepreneurs. Most corporate entrepreneurs are not tempted so much by financial rewards as by more intrinsic rewards (Bouchard 2001, Sathe 1998). We propose that recognition by peers be a tremendously powerful intrinsic reward that is precisely what is needed by corporations seeking to encourage CE.

Another benefit of the peer review and scoring proposal is the novel measurability it brings to CE. Quantifying CE is very important, since what cannot be measured cannot be improved. Currently, academic methods for measuring the CE "intensity" of a company often entail sending a questionnaire to its officers and management addressing issues such as employees' initiative, commitment to innovation, and awareness of outside markets and ideas (Zahra, 1996). However, the method is awkward and coarse: it is not clear how these surveys can produce specific information to help an overwhelmed manager choose between good and bad projects to support. On the other hand, the feedback system in which both the entrepreneurs and the reviewers are ranked provides immediate measurable benefits: it allows the company to rank its employees in terms of a) coming up with new ideas and b) distinguishing good ideas from bad.

Finally, informal peer review has been shown to improve the odds of generating a better idea or improving on an existing idea (Frese et al, 1999). The website and associated back-end processes we propose, therefore, are just a technical means to coordinate the human intelligence that actually produces and ranks the plans.

Project Tracking

The system filters out good ideas, but Entrepreneurship is more than just selecting good initial ideas: it is about identifying good people (Sathe, 1988). As such, we additionally propose that projects be tracked against their stated goals such as ROI stated in the original project submission. We propose selecting, from within the firm's finance department, a small group that would objectively calculate actual results and the ratio of actual over predicted results. Entrepreneurs (their code name) with good track records would be flagged and reviewers could use this when judging a proposal. This could also be used to rate reviewers: for example, if a reviewer had given high scores to an ultimately very successful project proposal, the reviewer's score would be given more weight in subsequent rounds, and vice-versa This strictly objective, external reviewing of peer reviewers would address some of the peer review's perceived shortcomings, namely the apparent reluctance to use self-criticism and the denigration of others (Fogarty, 1996; Baliga and Sjostrom, 2001), while maintaining its strengths. This would create a "meritocracy culture" or "ideology" of peer evaluation similar to that found in successful communities such as eBay, and would create a society valuing performing individuals, two key requirements for the emergence of sustainable CE benefits (Chung et al 1997).

CE: STRATEGIC REALIGNMENT

The basic decision for strategic realignment should be approved at board level. However, the board is not always aware of the latest trends in a market place, may be behind the times, may be bogged down in CG initiatives, and may in fact have a high-level view of what is going on but miss fast-moving developments that personnel within the corporation are experiencing but of which it is unaware (Perel 2003). In short, there is a need to better educate the board in order to allow it to make more informed decisions (Armour, 2002). However, in light of the corporate governance scandals of recent years, any mechanism to inform the board of new tendencies must at the same time maintain corporate discipline and the associated chain-of-command.

Internal board updating

We propose that the top entrepreneurs and reviewers, as determined by their rankings, be nominated to present their views to the board once per quarter. When dealing with the board, it is important for the anonymity requirement to be dropped: the board must be able to judge the character of the people sharing their insight as well as the insight itself, since in many cases the quality of the person is as important as the idea itself (Sathe, 1988).

By this mechanism, presenters to the board are selected based on their track record for launching successful ventures that first survived peer review and subsequently went on to achieve some success. The board will under no circumstances be forced to act on any of the insight, nor will this be a permanent structure for individuals to bypass the established chain-of-command. Rather, it will be a novel way for the board to quickly mine valuable internal company expertise that could be of strategic value for the firm while at the same time rewarding entrepreneurs and reviewers, since presenting to the board is a public recognition of achievement and as such is a prize of high intrinsic value.

Implementing the process

The BoD plays one more important role in implementing this process which relies on previous submitters of plans acting as peer reviewers for later submissions. When starting, there will be no previous reviewers. Therefore, all board members should act as peer reviewers for the first few rounds until a critical mass of reviewers has been achieved, giving board members an excellent opportunity to participate at ground zero in the CE of their firm, while giving them a clear exit strategy to ensure they do not become bogged down in company minutiae. One board member should stay on for each round, however, to maintain board awareness. This closes the loop in our CE process: board members would help launch the system which would then identify and initially support new corporate entrepreneurs who would then launch new ventures, act as peer reviewers themselves, and then ultimately report back to the board on any new developments in the company and industry, as shown below.

CONCLUSION

This article has presented novel mechanisms for implementing performance feedback at many levels to promote and quantify corporate Entrepreneurship. The two key aspects are: 1) creating a new meritocratic entrepreneurial culture to encourage entrepreneurs to submit ideas and plans, internal venture funds, a selection process based on peer-review, and an objective feedback mechanism, and 2) feedback to the BoD to help guide it in its role of ensuring that the firm identifies and acts on opportunities for strategic renewal.

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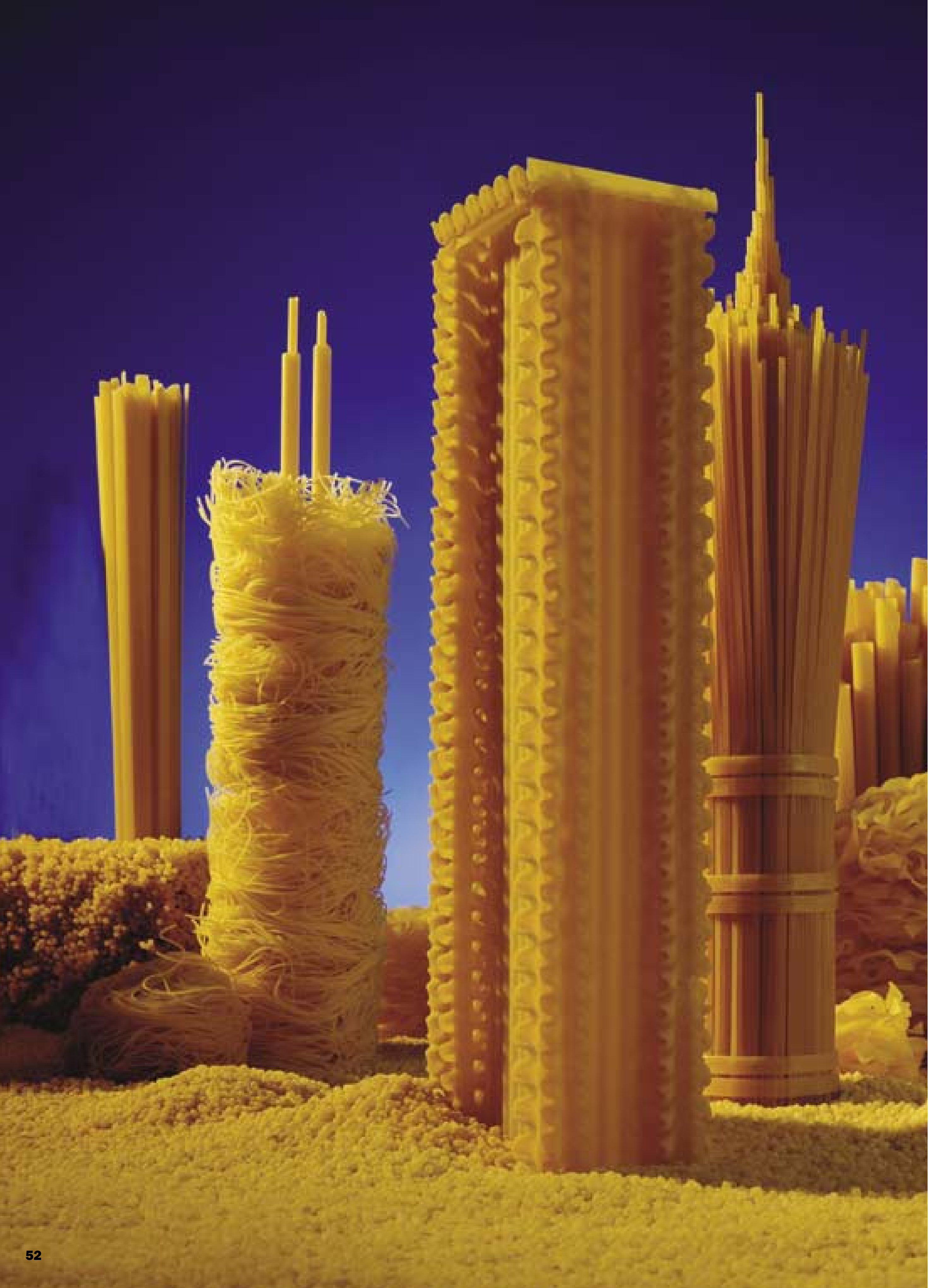

INDIAN INSTITUTE OF MANAGEMENT, AHMEDABAD
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Fostering Corporate Entrepreneurship

Exploring four enabling structural forms and aligning Human Resource Management Processes

INTRODUCTION

Researchers and practitioners agree that organizations need to be innovative to survive in the current competitive business environment. The real issue however has been the “how” of organizational innovation. Organizations innovate in various ways and corporate Entrepreneurship is one of them. Though Entrepreneurship is mostly identified with innovation, Entrepreneurship involves innovating, and also assuming the risk of the consequence of the innovation, be it success or failure. Organizations as a whole can innovate by being more entrepreneurial than the competition, or leave it to a few individuals in the organization.

Entrepreneurship is defined as a process by which individuals - either on their own or inside organizations - pursue opportunities without regard to the resources they currently control (Stevenson, Roberts and Grousbeck, 1989). Underlying the concept of Entrepreneurship are three key dimensions: Innovation, risk-taking and proactiveness (Miles and Arnold, 1991).

Thus, an organization is entrepreneurial when it pursues opportunity regardless of the resources that it currently controls (Stevenson and Jarillo, 1991). The organization has to be innovative, i.e. seek creative, unusual or novel ideas, then commit resources to them (risk-taking), and proactively implement them.

ORGANIZATIONAL DESIGN AND CORPORATE ENTREPRENEURSHIP

Corporate Entrepreneurship has a design element to it, where the organization can decide the level at which it is entrepreneurial. Stopford and Baden-Fuller (1994), propose three levels of corporate Entrepreneurship. The first is creation of new businesses within an existing organization - corporate venturing or intrapreneurship; the second is associated with the transformation or renewal of existing organizations, and the third is where the enterprise changes the rules of competition for the industry. Starting from the above, we explore four forms of corporate Entrepreneurship.

The first one is intrapreneurship, where individuals within organizations have new ideas, that are funded by the organization, and have their own business venture within the organization. They are entrepreneurs, and employees, thus becoming intrapreneurs.

The second form of corporate Entrepreneurship is formation of individual business units within the organization focused on customers, internal or external, and empowering them to take decisions regarding their units, and allocating resources based on the units’ performance. Thus, a Human Resource Management (HRM) department in an organization can be entrepreneurial, if the organization defines it as an organizational unit that serves customers who are employees of the organization, and the resources it receives every year are based on the contribution it makes to the organization. Mostly, this form of organization will be focused towards the external customer, where the various businesses of a large corporation can be segregated based on the customer and made into individual business units. Any business unit containing the front-end employees who face the customer (client) can be encouraged to become entrepreneurial units.

The third form of corporate Entrepreneurship is more of a top-management-driven Entrepreneurship, where the top management or more specifically a Special Innovation Group, comes out with new ideas either through bottom-up communication or through the group discussions and invites employees to take up the ideas and implement them. Here the emphasis is on risk-taking and proactiveness, rather than on innovation, though the ideas that come out of the SIG might be very creative, but not feasible, forcing the individual who takes up the idea to innovate it into a feasible one.

The fourth form of corporate Entrepreneurship is related to the third form of corporate Entrepreneurship that Stopford and Baden-Fuller discussed. The organization as a whole behaves like an entrepreneur. This involves an integration of the first three forms of corporate Entrepreneurship. The objective is to innovate as a whole organization and commit resources to innovation, to change the very "rules of the game" of the industry.

ENABLERS FOR CORPORATE ENTREPRENEURSHIP

Once it decides the level, the organization can then focus on enabling the success of the entrepreneurial process. A difference between individual Entrepreneurship and corporate Entrepreneurship is the degree of the risk and the resource availability. The corporate support can take care of the resource concerns of a corporate entrepreneur. In this article we shall focus on the enablers for Entrepreneurship within an organization, based on the level at which Entrepreneurship is practiced.

Enabling Entrepreneurship in the organization requires culture, policies and procedures which encourage Entrepreneurship. A culture that encourages employees to be proactive, to innovate and take calculated risks is essential to support and promote entrepreneurial activities within the organization. The culture must develop these three characteristics as an organization-wide phenomenon starting from the Top Management to the front-end employees. A set of policies that formally support entrepreneurial behaviour is necessary for any entrepreneurial organization. For a supportive culture and policies, the human resource management practices of the organization will have to play a critical role.

Basically entrepreneurial behaviour is a "human" issue that either belongs to a few individuals in the organization or is an organization-wide phenomenon. Both ways the development and management of employees in the organization is a critical activity to foster corporate Entrepreneurship. Schuler (1986), and Morris and Jones (1991) have discussed the role of HRM practices that enable corporate Entrepreneurship. They have looked at all the functions of HRM, starting from staffing to training, and performance appraisal. HRM practices that are strategically oriented towards the long term, that support risk-taking behaviour by tolerating failure, that train employees for entrepreneurial traits, and that are result-oriented and individualistic in their performance appraisal have been shown to develop corporate Entrepreneurship by developing entrepreneurial traits in the employees.

Armed with empirical support for the role of specific HRM practices in corporate Entrepreneurship, we shall attempt to tune the HRM practices to the various forms of corporate Entrepreneurship that can be designed in organizations.

Enablers for corporate Entrepreneurship (CE) are broadly segregated into three dimensions:

1. **The culture dimension**
2. **The capabilities dimension**
3. **The control dimension**

The culture dimension looks at enabling an entrepreneurial culture in the organization, focusing on the three traits of Entrepreneurship. The capabilities dimension focuses on enabling the capabilities required for Entrepreneurship, through training and development, recruiting people with the capabilities. Finally the control dimension consists of those policies that measure the entrepreneur for his/her entrepreneurial activity, thereby monitoring performance and informing top management.

The culture dimension focuses on risk-taking, innovative thinking and proactiveness.

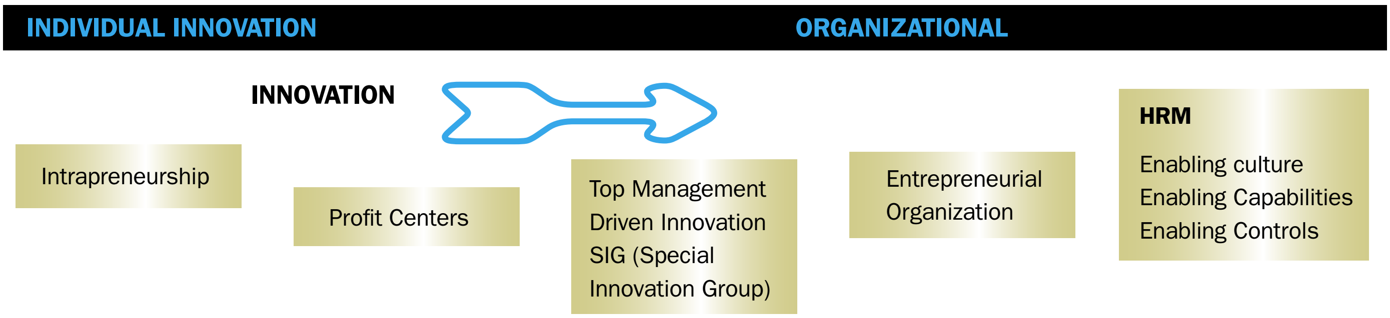
The capabilities dimension focuses on:

Cross-functional business skills
Training for the three traits of Entrepreneurship
Recruiting people with the traits of Entrepreneurship

The control dimension focuses on:

Measuring entrepreneurial activity
Measuring causes for failure
Measuring contribution in the short term vis-à-vis contribution in the long term to the organization

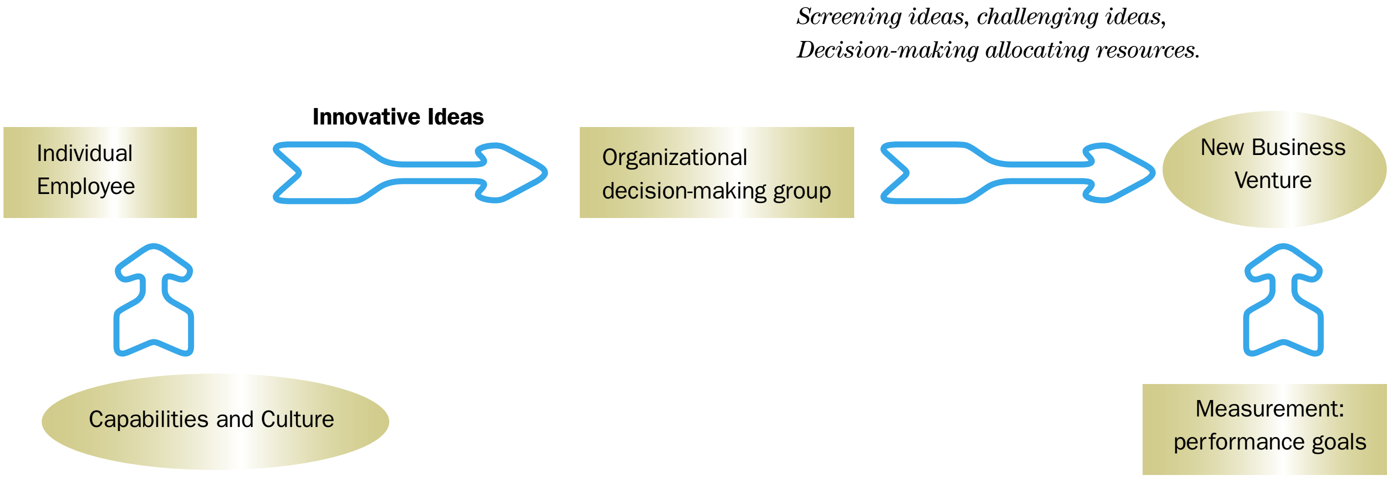
The figure below shows four different organizational designs for Entrepreneurship and the enablers for them.



FORM I FOR CORPORATE ENTREPRENEURSHIP (CE FORM I)

In form I, the individual is the entrepreneur, as he/she has new ideas, supported by the organization and resources, performance goals are decided, and the individual employee starts a new business venture within the organizational framework. Here, the organization has control over screening of ideas, resource allocation and setting performance targets.

He/she chooses his/her set of people, and with the resources allocated to him/her starts a new business venture. This business venture is innovative, involves a lot of risk both for the individual and the organization, and the proactive element is built into the individual and the organization, as the individual voices the new idea and the organization supports it.



The enablers for form I CE is as follows:
The organization has to nurture young entrepreneurs, for which there is a need for top-management-driven encouragement for innovative thinking, risk-taking behaviour and proactiveness. The critical level that needs to exhibit this kind of culture is the middle management level that works with the individuals who have just entered the organization. The middle management is the communication medium between the top management and the front-end employees and their behaviour actually shows what kind of culture is practiced. The middle management has to proactively accept new ideas, put them through a vigorous scan and check them for feasibility.

The **capabilities dimensions** to nurture intrapreneurs are:

1. Cross-functional experience for young front-end employees
   a. This can be achieved through planned job rotation
2. Need-based training in business skills, technical skills to update the knowledge required to handle new ventures
3. People-management skills to handle newly formed teams
4. Organizational capabilities include the ability to form cross-functional teams to start a new business venture, which also means that the organization should have a competency profile of the employees of the organization

The **control dimensions** to nurture intrapreneurs are

1. Development of clear performance goals for the new business ventures
2. Development of a measure to identify the source/cause of any failure and success
3. Performance management systems that are capable of identifying intrapreneurs

FORM II OF CORPORATE ENTREPRENEURSHIP (CE FORM II)

Form II of CE is more organizational than form I. In Form I, the individual is the focus, and his/her entrepreneurial traits are respected and encouraged. In form II, the individual business unit is a team that focuses on a particular customer. Usually it starts with the front-end employees who face the clients. These employees are grouped based on the customer on which they focus. An ideal example is Satyam Computer Services (a leading Indian software solutions provider), where the business is divided based on verticals, each vertical focusing on a particular client type, viz. banking, insurance, retail management etc.

Within each vertical there are a number of teams, each focusing on a particular client.

CE can be nurtured within each team by focusing on a set of enablers. We first focus on the measurement dimension. Each team is given a growth-related goal and is empowered to handle the growth with the particular client or to handle new clients within the same vertical or even move across verticals, but it has to handle its own resources based on the revenues that it has generated.

The performance goals coupled with empowerment give rise to Entrepreneurship.

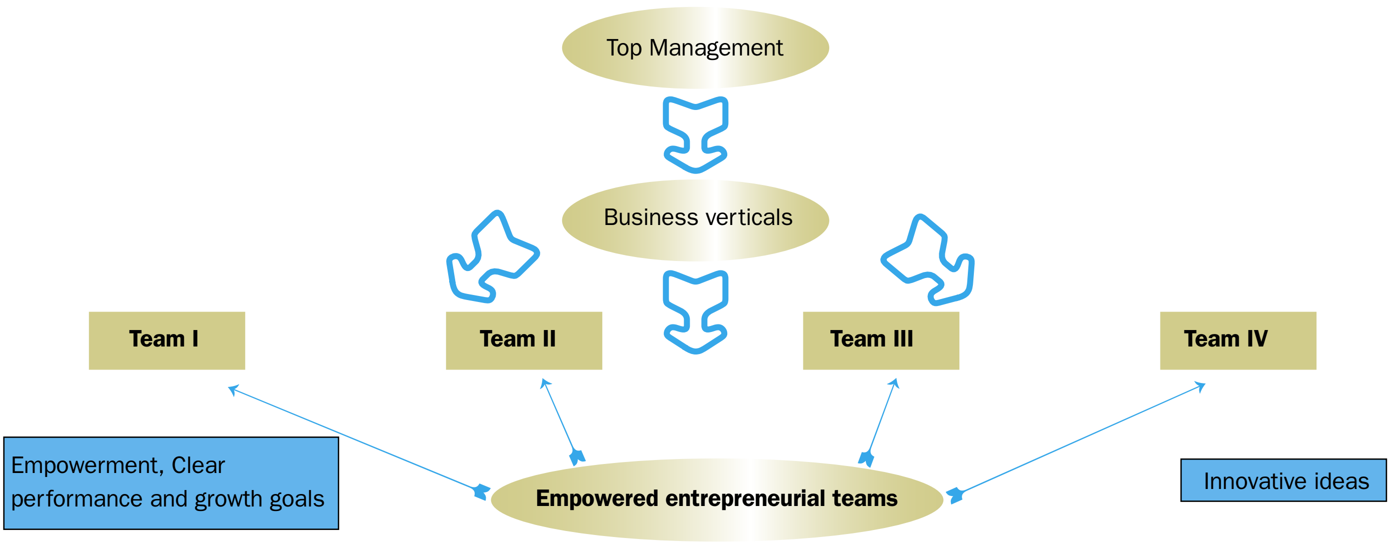
FORM II CE is basically enabled by clarity of performance goals and empowerment.

But the other two dimensions, cultural enablers and capabilities enablers, are vital for the success of FORM II CE. Without the other two, there will be no taking off of FORM II CE, and it might even result in demoralization of the workforce and high turnover.

The capabilities and culture dimensions are similar to FORM I CE, but the capabilities now focus on team dimensions, and team performance and teamworking skills, and the measurement dimension focuses on measuring both the individual contribution and team contribution.

The capabilities dimension has a tough role to play, as the teams have to appreciate the empowerment positively, handle team conflicts and finally think innovatively and take risks as a team. The call is tough for the organization and for this the top management needs to offer full support, and initially has to tolerate failures.

CE-FORM II



FORM III OF CORPORATE ENTREPRENEURSHIP (CE FORM III)

Form III CE is a special kind of CE, which is, in a way, a reverse of intrapreneurship, as the top management comes with the idea, and individuals are invited to take the ideas as their own and start their new ventures with financial support from the organization. The entrepreneurial spirit of the individual towards innovative thinking, risk-taking and proactiveness is required, but the individual comes after the idea is sparked by a team of people in the organization who focus on idea generation. The whole concept behind this form is that idea generation sometimes requires a different type of traits, which include creativity and lateral thinking, and years of experience in a particular domain. But the idea can be made into an entrepreneurial venture, by a young risk-taking and proactive mind.

The cultural enabler here is the strongest for this form, as, unless the organization has an entrepreneurial culture, neither idea generation nor implementation will ever happen.

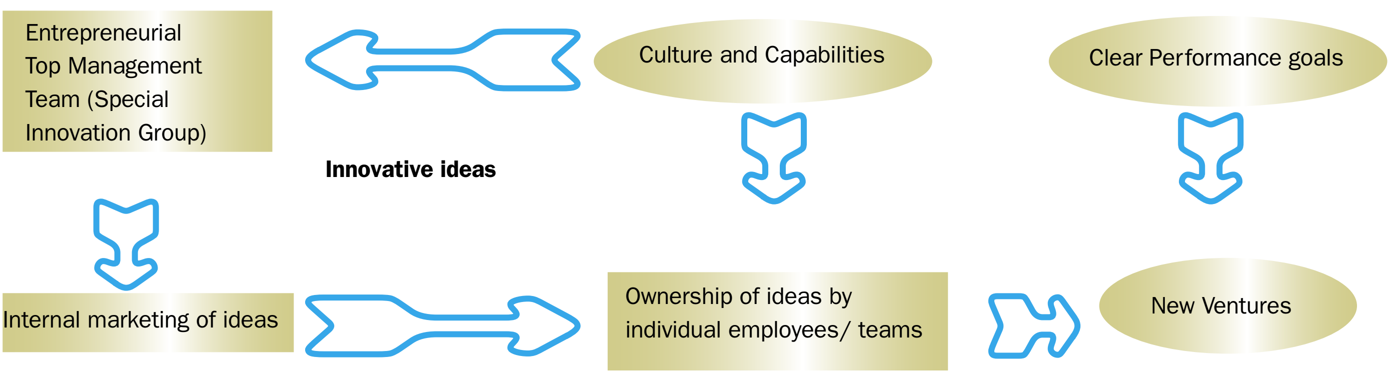
Though the organization floats the idea, once the individual takes it up, it becomes his/her own, and the risks of success and failure are taken by the individual. The organization does help by tolerating failure.

The capabilities dimension helps in choosing the right man based on competency profiles and past performance. The HRM department can create a team to help the individual handle the initial conflicts that arise in start-ups.

The capabilities dimension takes a strong decision with regard to who is to implement the idea and how much to commit in terms of people and resources for that idea.

The control dimension is similar to FORM I CE.

CE – FORM III



FORM IV OF CORPORATE ENTREPRENEURSHIP (CE FORM IV)

The fourth form of corporate Entrepreneurship requires the whole organization to be entrepreneurial. This starts with the top management, which takes up innovative and risky projects, and commits the whole organization to them.

The top management and the whole organization are involved in "frame–breaking change", which involves breakthrough innovation and which can alter the way in which industries compete.

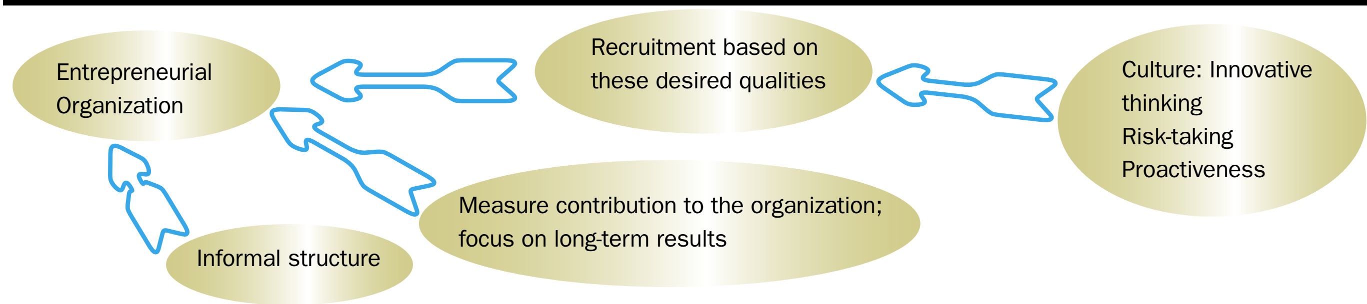
An example is Southwest Airlines, which introduced low flying fares, fun-loving employees, and changed the very way the airline industry works. The whole organization constantly prides itself on innovative ideas and every employee is willing to take risks and think innovatively with respect to satisfying the customer.

CE FORM IV requires an assembly of employees who think as the top management thinks, and this has to start with recruitment. People with entrepreneurial qualities are recruited and empowered to come with innovative ideas and to take risks. The top management leads by example. The control dimension for CE focuses on long-term benefits for the organization that arise from these innovative ideas, and thus the employees' performance is measured both for their short-term contribution and the long-term contribution. The organization works as an informal network, respecting and trusting the individual employee. The focus is on recruitment and culture, and measurement. Capabilities are bought from the market (recruited) rather than trained, as the whole organization is engaged in Entrepreneurship, and it would be better to recruit people with these traits, rather than train them, as from day one after joining the organization they will have to start behaving entrepreneurially.

The creation and maintenance of the entrepreneurial culture is very critical for the success of the organization, and this might become an area of concern as the size of the organization increases.

For the first form, the focus is very high on capabilities, though the role of the other two cannot be underestimated. For the second form, the control dimension has the maximum role to play, though without the other two, there could be negative consequences. For the third and fourth form, the focus is on culture, as culture will decide both the top management's innovative idea generation and individual employees' willingness to take risk, though the other two are vital for the success of the two forms.

FORM IV CE



CONCLUSION

The four structural frameworks support the continuum of corporate Entrepreneurship from individual intrapreneurship to developing an entrepreneurial spirit in the entire organizational operation. The four structural frameworks and associated human resource management processes explore the various alternatives that organizations can pursue to foster corporate Entrepreneurship. By focusing on the three dimensions, the four forms of corporate Entrepreneurship can be made to provide the desired results. The enablers change in the level of emphasis for each of the four forms.

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Organizational conditions and processes

ABSTRACT

Corporate Entrepreneurship is a means to revitalize organizations by promoting a culture of innovation, risk-taking and Entrepreneurship among employees of the organization. It aims at bringing out the entrepreneurial spirit of employees of organizations and giving them wings to pursue their innovations. But, in order to foster this spirit, organizations have to make some fundamental changes in the way they work.

The three pillars which any corporate Entrepreneurship needs are Organizational structures and processes, Human Resources and culture, and top management support.

Many successful organizations have made changes in their structure to make their organizations more entrepreneurial-friendly. This includes having more cross-functional communication, horizontal setup, less hierarchy etc.

At the same time, the task of Human Resource departments within the organizations becomes extremely important. They not only have to see that the right kind of people is joining the organization, but also have to prepare compensation structures to keep such people motivated.

Top management has to be the champion of these initiatives. The managers have to see that they themselves give signals that Entrepreneurship is valued in the organization and help their employees remain enthusiastic about the initiatives. Sometimes the managers themselves feel threatened by too much innovation, and see this as a loss of power. Issues such as these further complicate the process.

Finally, like any other initiative, there should be a means to measure its success. Traditional measures, like ROE and other accounting measures, do not do full justice to this due to their short-term focus. The need is to develop goals which take into consideration the special conditions of corporate Entrepreneurship and then evaluate the progress against attainment of these goals.

INTRODUCTION

Global competition, corporate downsizing, rapid technological progress, and numerous other factors have contributed to the decline of numerous corporations. Corporate Entrepreneurship has become recognized as a potential solution for established corporations to become innovative as a means of survival and profitability (Miles & Snow, 1978; Zahra, 1991). Small firms appear to be significantly more efficient at the entrepreneurial process than larger firms. Yet, in the current market economy, many large firms have little choice but to engage in entrepreneurial activities as a means to maintain their future vitality. In fact, for big, successful corporations, the problem is something akin to the 'Alice in Wonderland syndrome', whereby the companies have to work harder and harder just to maintain their position

In this paper we look at the meaning of Corporate Entrepreneurship, followed by an insight into the types of organizational structures and other processes that promote and foster it.

CORPORATE ENTREPRENEURSHIP

Corporate Entrepreneurship is generally considered to be ill defined. Authors have not been consistent in the use of the labels they attach to the phenomenon they purport to study, using labels such as Entrepreneurship, corporate Entrepreneurship, intrapreneurship and entrepreneurial orientation.

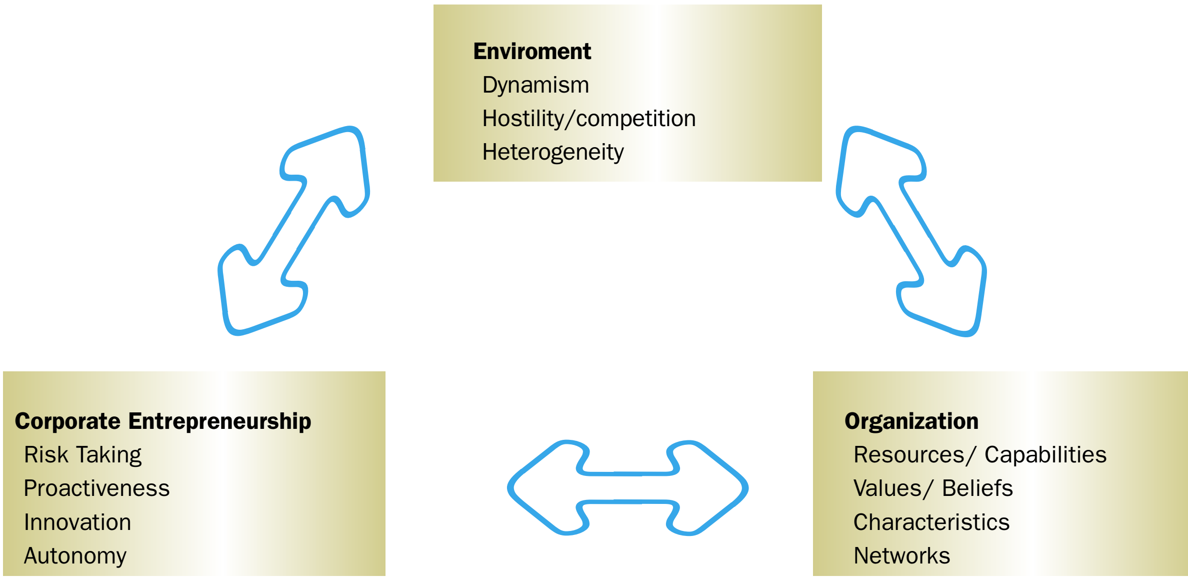
The origin of the problem of defining corporate Entrepreneurship can be attributed to the lack of a generally accepted definition of its underlying construct, i.e. Entrepreneurship. The term 'Entrepreneurship' has been used to define a wide range of activities, such as creating, founding, adapting, and managing a venture (Cunningham & Lischeron, 1991). According to Accenture, Entrepreneurship has five major elements: creativity and innovation, ability to apply that creativity, drive, focus on creating value, and taking risks (refer Exhibit A).

Corporate Entrepreneurship is thought of as rejuvenating and revitalizing existing companies. It is brought into practice as a tool for business development, revenue growth, profitability enhancement and pioneering the development of new products, services and processes.

PROMOTING CORPORATE ENTREPRENEURSHIP

Corporate Entrepreneurship is to a great extent a social process in which innovations are socially constructed through a series of trial-and-error learning episodes (Van de Ven, 1986). Theses episodes constitute a complex network of interpersonal transactions involving an increasing number of people and volume of information as the process unfolds over time.

The following model depicts the major elements that interact with each other to form the complete corporate Entrepreneurship system.



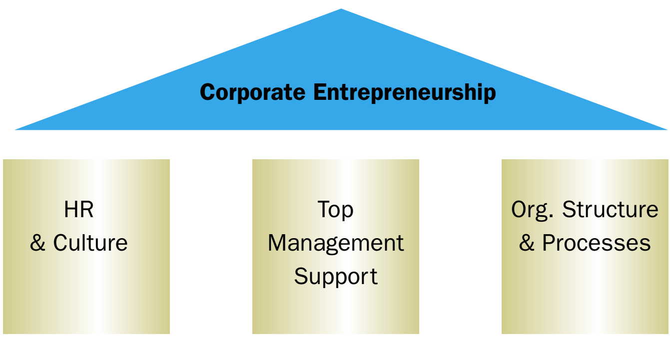
Entrepreneurship is almost always considered to be related to individual initiative. Stories abound of individuals or groups of individuals who independently went about starting their own businesses which over time became some of the biggest corporations.

In recent times, the myth that an entrepreneur is a single, heroic individual has been blown apart. In fact, collaboration is the key, as groups of entrepreneurs work together to common ends. The five core elements of Entrepreneurship are most likely to be shared across a team or indeed an entire organization.
Corporate Entrepreneurship has thus come to the forefront of the Entrepreneurship drive, especially in organizations. According to Zahra (1991), corporate Entrepreneurship refers to the process of creating new business within established firms to improve organizational profitability and enhance a firm's competitive position or the strategic renewal of existing business.

There are a number of strategic approaches that large firms have used to foster corporate Entrepreneurship. Exhibits B & C give the results of a survey by Accenture on how senior executives say they foster entrepreneurial behaviour in their organization.

One approach is to publicly highlight the importance to organizational members that entrepreneurial activity is strategic and a cultural priority. The essence of this idea is to create a sense of urgency that stimulates increased entrepreneurial activity in conservative companies. However, peer rhetoric is usually not enough to consistently create new ideas, and requires other approaches in support of this approach. Another approach is to hire creative people from outside in order to invigorate old lines of business. This has worked fairly well in IBM on hiring an outside CEO to help the internal managers to break the rule of the former culture that may have been hindering inventive activity. Granting inventors free time to invent by building flexibility and slack into R&D budgets and modifying the performance management system so that creative ideas can emerge is another approach which has been exemplified with invention stories at 3M Corporation. Creating an internal market for ideas or knowledge markets to help identify and commercialize radical inventions has been tried by a number of companies, such as Royal Dutch/Shell, Nortel and Procter & Gamble. Nortel uses "Phantom stock" to compensate those who seek to be part of a team that is seeking to realize high-risk product in a development project. Although this approach is useful in creating good ideas, it is less useful as a vehicle for commercializing inventions. Once the idea is established and accepted, most companies pass off the responsibility for implementing the idea to an established business with little success.

From these examples we can start developing a set of measures that firms need to adopt in order to promote business activity internally. The following diagram depicts the three pillars on which corporate Entrepreneurship rests.



Unless all three are present to support the initiative, it is bound to crumble.

ORGANIZATION STRUCTURE & PROCESSES

Organizations are under increasing pressure to act on a global scale and yet maintain nimble and flexible structures that can react quickly to a changing environment. Each corporation wants to capitalize on its sheer size, but maintain some of the principles and focus that underpinned its growth from start-up to the present. The challenge is to regain what Niall FitzGerald, Chairman of Unilever, terms the 'small-company soul.' This can make it easier for people to show the drive that is essential for entrepreneurial behaviour – seeing ideas through to fruition might not seem quite so daunting – and there could well be greater collaboration and creativity, as staff feels a greater sense of responsibility and teamwork. One way to achieve this is to break the organization down into smaller units. For example, ABB Group has made a regular practice of redividing its constituent businesses as soon as they become unwieldy, with the aim of recreating the original print shop that was the founding business of ABB. Such measures enable the organization to remain big but retain the small firm enthusiasm and dynamism.

Freedom is one of the most important aspects of any creative venture. In order to provide that organizationally, the internal venture needs to be set aside from the rest of the corporation. Without this separation, most attempts at invention ultimately lead to incremental innovation at best. Established structures, rules, and a compensation system appropriate for established firms and divisions tend to be largely incompatible with the pursuit of inventive activity. Evaluating the experimentation and development of new products is simply very different from what is needed in managing the business activities of various corporate divisions. Setting an internal venture at some distance from the main organization gives it some freedom to act in a way that is more consistent with an entrepreneurial venture while also maintaining connections with the corporate parent for critical resources.
Another important factor is the amount of bureaucracy and delays in the organization. New and creative ideas often fizzle out because of the time it takes to get decisions made. For an entrepreneurial spirit to flourish there is an urgent need to cut through the processes that are the causes of delay.

> 'To be successful, the whole team must share and adopt Entrepreneurship'
> *Orianne Garcia, Caramail, France*

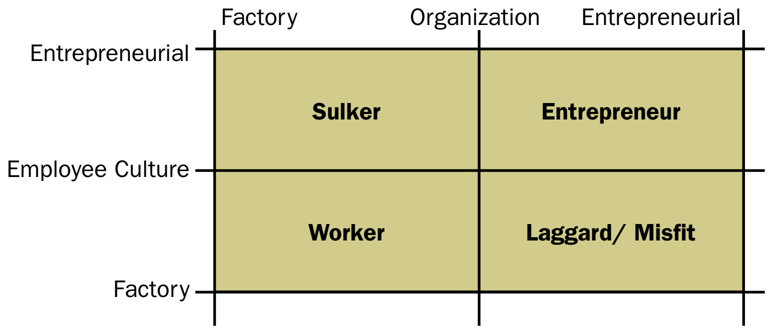
Teamwork, collaboration and a knowledge-sharing culture are other prerequisites for developing a corporate entrepreneurial spirit. Organizations promoting entrepreneurial culture should have formal structures to promote the above values. They should not be strictly hierarchical and functional but should also have avenues of cross-functional and horizontal setup. They should have knowledge management systems in place. It does not always have to be in the form of expensive IT systems. Even having mechanisms for promoting informal interaction between employees, like having afternoon tea together, go a long way in developing a culture of sharing information.

HUMAN RESOURCE & CULTURE

Bringing a diversity of experience and viewpoints into an organization can also help develop a more entrepreneurial culture. A diverse workforce allows companies to read and respond to the needs of complex markets, and introduces different approaches to solving problems and getting things done. Corporations can add to their intellectual diversity through their own hiring and through collaborative relationships with outsiders.

The culture of willingness to learn from mistakes is another important way to promote an entrepreneurial spirit. 71%

of executives in an Accenture survey said that aversion to risk and failure is stopping people in their organization from acting entrepreneurially. There are mainly two reasons for this: personal cultural and organizational culture. Many people come from a culture of risk aversion. Developing risk-taking behaviour among such employees is a complex task. Here the task of HR departments and a proper selection and recruitment process become extremely important. The organizations should properly check for compatibility and culture fit before recruiting people. The following matrix shows the various types of employee and organization culture combinations.



‘We believe being entrepreneurial means seeing the opportunity and sharing it, understanding that no opportunity is without risk and uncertainty, accepting that we all make mistakes and learn from them.’
Silvio Scaglia, eBiscom, Italy

The cultures can range from a factory culture with no free enterprise spirit to that of an entrepreneurial setup. If both employee and organization have a factory culture, then the employee will play the role of a worker who just does his job mechanically without any innovations. A laggard is an employee having a factory culture in an entrepreneurial organization. Such a person cannot perform in an environment which demands free enterprise and innovation from employees. Diametrically opposite is a setting where an entrepreneurial mindset employee is in a factory setup. Such an employee finds the culture and work too rigid and restrictive, and as long as he remains in that organization he remains sulking. The greatest value is generated when both the employee and organization have an entrepreneurial culture. This enables full utilization of the talent and skills of an employee.

Internal processes of the organization and its attitude towards risk-taking and accepting failures also contribute to the extent of harnessing entrepreneurial activity. Risk-taking is an integral part of any Entrepreneurship venture, and the organization should see to it that the existing structures do not inhibit this spirit. One should allow people to speak their mind and take risks without reprisals. They also need to know that reasonable failure will not be castigated – that, in fact, some level of failure is likely if a person is behaving in a sufficiently innovative and proactive manner. As Thomas Edison said “I have not failed. I’ve just found 10,000 ways that won’t work.” That should be the spirit of accepting failures.

‘People want to believe they are going to make a difference. There has to be more to satisfy their psyche than just the paycheck. They have to believe that they are creating something great in order to throw one hundred per cent of their human effort into that.’
Michael Klein, CEO, egroups.com, division of Yahoo!, US

This should also be reflected in the rewards and compensation system of the organization. Organizations which reward employees on the basis of their ability to fulfil short-term goals only would never be able to foster an entrepreneurial spirit. It should be realized that the pursuit of new ideas and innovation is a long–drawn-out, risky process. The rewards should be made so that these ventures are recognized. Developing criteria for evaluating the quality or success of an entrepreneurial venture is extremely difficult. Rather than looking at what the outcome is, the focus of such an evaluation should be all that was done and, regardless of the outcome, whether there has been some value addition to the organization in terms of learning or experience.

TOP MANAGEMENT SUPPORT

The commitment and support of the top management is imperative for any entrepreneurial effort to succeed in an organization. Top management should play the role of a mentor and sponsor of the venture. It should not act as a mute spectator, watching the Entrepreneurship ventures from the other side of a laboratory door. Rather, the managers should themselves act entrepreneurially and send positive visible signals to the employees that such entrepreneurial practices are appreciated. They should act as role models for the employees.

A big problem, though, is the basic lack of trust that leaders have in the entrepreneurial abilities of employees throughout the organization. Many times they themselves feel threatened by the process of corporate Entrepreneurship. They feel a loss of authority and power. This leads to the managers sometimes killing Entrepreneurship initiatives of those working under them. The organization also has a responsibility in this direction to allay the fears of top management and see to it that these efforts of building an Entrepreneurship culture are not restricted to employees alone but encompass the whole organization.

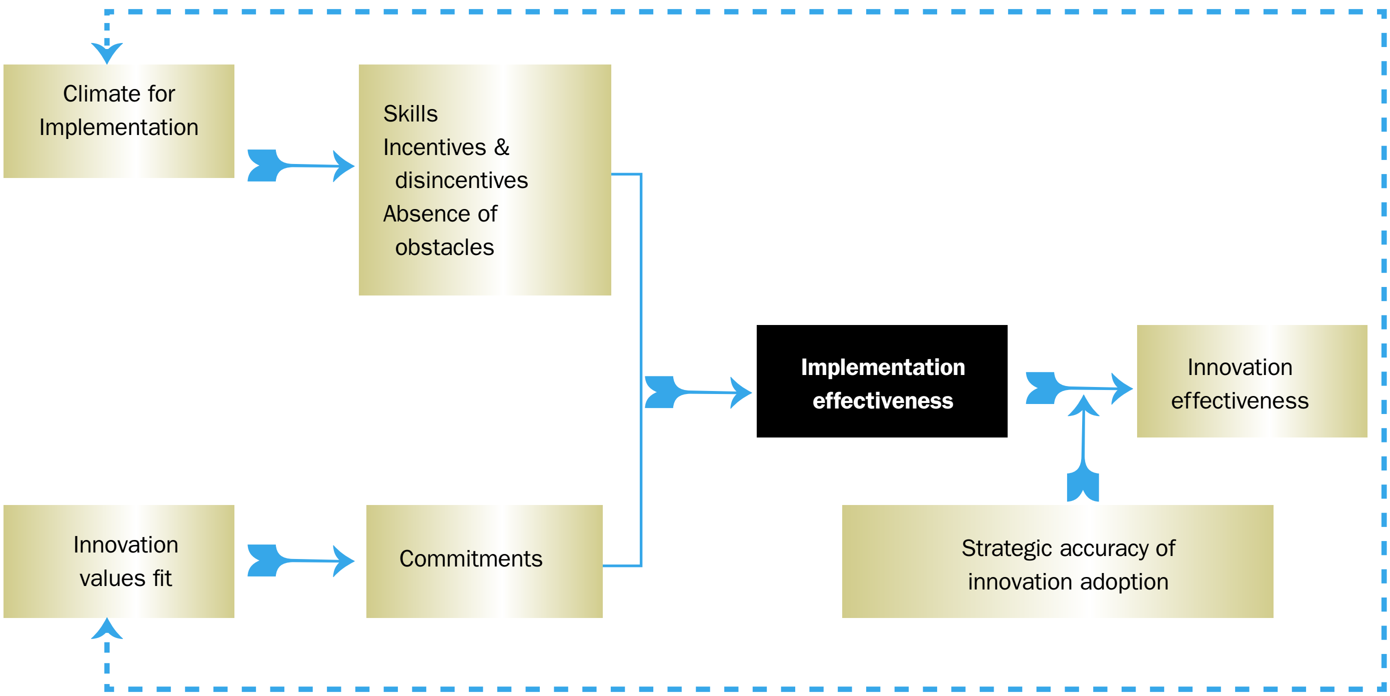
MEASURING BENEFITS

Once the processes are implemented there have to be certain ways to determine their effectiveness. The following diagram depicts the determinants and consequences of implementation effectiveness.

goals and targets are different from the normal methods of measuring corporate performance, such as increasing sales figures, ROE and other accounting measures. Such measures may not provide an accurate picture of the firm's performance, as they present a short-term view of the firm's performance. This is in contrast to the practical situation where the benefits from entrepreneurial activity are received over a long period. Also, accounting-based measures are not theoretically tied to the entrepreneurial nature of the firm they are supposed to be measuring. It is not clear from accounting measures whether the performance results were due to the entrepreneurial activities of the firm or were produced by some other actions.

As corporate Entrepreneurship aims at creating value, the best measure is one which is able to measure this trait. The measure of entrepreneurial initiative should be the value creation in terms of knowledge, competencies and the ability to understand market or customers.

This can be measured by developing appropriate goals and measuring the extent of their attainment. For example, 3M has the requirement that 25 per cent of each unit's sales must come from products introduced within the past five years. Such measures actually encourage the employees to be innovative.



Source: Klein & Sorra 1996:1056

In order to measure any kind of benefits, some benchmarks and targets are required. Measuring performance is about comparing results with certain parameters. But the problem in measuring Entrepreneurship in an organization is that the

This serves the actual purpose of measurements, to enable one to evaluate how well one is performing and improve upon that performance.

CONCLUSION

Every few decades, some idea gains the attention of business corporations, and they start considering it as a panacea to solve all their problems. Corporate Entrepreneurship is again such an idea. Although not new, it is being touted as a cure to enable firms to survive in this era of constant change and disruptive technologies. But, like any other measure, it demands some specific kind of structures and processes before it can provide its full benefits. A focus on creating value will be vital, as will a clear strategy and sense of common purpose. By definition, the collaborative aspect of Entrepreneurship will be vitally important, as value will be created though the establishment of powerful and complex relationships between people and organizations. Increasingly, all staff in corporations will have to become more adept at establishing and maintaining such relationships, as the boundaries of businesses become much more permeable. Only then will the true power of this process be unleashed.

EXHIBITS

EXHIBIT A: EXPLANATION OF TERMS

Creativity and innovation	These are at the heart of Entrepreneurship, enabling entirely new ways of thinking and working. Entrepreneurs can identify opportunities, large or small, that no one else has noticed.
The ability to apply that creativity	Good entrepreneurs can effectively marshal resources to a single end.
Drive	They have a fervent belief in their ability to change the way things are done, and the force of will and the passion to achieve success.
A focus on creating value	They want to do things better, faster, cheaper.
Take risks	Breaking rules, cutting across accepted boundaries, and going against the status quo.

EXHIBIT B: HOW SENIOR EXECUTIVES SAY THEY FOSTER ENTREPRENEURIAL BEHAVIOUR

Encourage sharing of information and knowledge throughout the organization	92 per cent
Encourage collaborative working across the organization	90 per cent
Act in a visibly entrepreneurial way themselves	89 per cent
Communicate pro-entrepreneurial values to employees	85 per cent
Retain and promote the most entrepreneurial staff	83 per cent
Provide a better physical working environment	82 per cent
Establish partnerships with other organizations	81 per cent
Streamline organization structure and bureaucracy	77 per cent
Encourage staff to build wider networks of contacts	76 per cent

Source: Accenture Research

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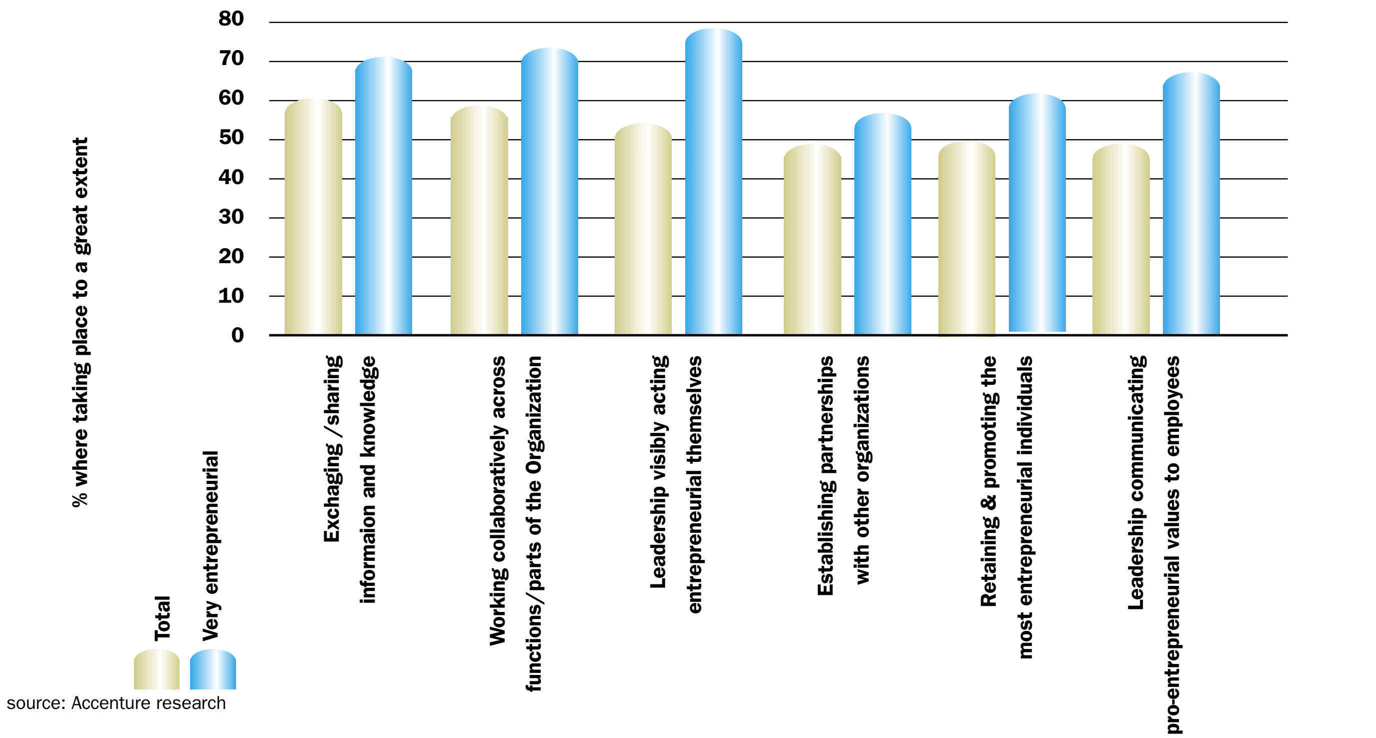
EXHIBIT C: WAYS ORGANIZATIONS ARE ENCOURAGING ENTREPRENEURSHIP (%)



source: Accenture research

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BY ANNE GAW, STEVE LIU

Beyond Two Guys in A Garage

Corporate Entrepreneurship can leverage a firm's financial resources, market knowledge, and managerial expertise to introduce a new or improved product, feature, or process to market. Compared to innovations started by "two guys in a garage", Entrepreneurship within a firm has the advantage of access to the firm's market and industry experience. The challenge of corporate Entrepreneurship is that the risk-averse culture of traditional corporations stifles opportunities for innovation. To promote Entrepreneurship within a corporate environment, firms must release their grip on efficiency and instead embrace the failures which enable them to learn new ideas and methods. They must empower the innovative leaders with access to senior management, and equip them with the support of cross-functional teams. These mechanisms and structures form a sustainable competitive advantage that enables a firm to create and capture more value, more quickly than two guys in a garage.

IS CORPORATE ENTREPRENEURSHIP POSSIBLE?

To answer the question of whether corporate Entrepreneurship is possible, we must ask another question: Is your organization prepared to reward failure? Innovation goes hand in hand with entrepreneurial activities and inevitably leads to many failures and relatively few successes. Encouraging entrepreneurial activities within a firm means promoting a risk-taking culture as well as tolerating the failures when they occur. As the large focused firm becomes increasingly efficient in its industry, it is finding it increasingly more difficult to compete on a low-cost strategy. The firm inevitably finds its current strategy untenable, and seeks an approach to creating and capturing additional value.

The appropriated value from successful innovations can be enormous for the firm, leading to new market opportunities or increased process efficiencies. A continuous cycle of innovation further enables a firm to create a sustainable competitive advantage over competitors. But how does a firm protect itself from the effects of repeated failures in the quest for innovation? An answer lies in enabling intra-corporate entrepreneurs to take calculated risks via focused market-driven innovation. However, existing structures, mechanisms, and the organizational culture may make it impossible or extremely difficult for the intra-corporate entrepreneur to succeed. Though many argue that successful innovation is extremely difficult – if not impossible – in a large firm without profound organizational restructuring, effective mechanisms can be implemented that will promote innovation and result in the realization of gains from intra-corporate Entrepreneurship. The gains will rely on structures and mechanisms such as a renewal of corporate vision to encompass innovation, support and buy-in from all levels of management, direct channels of communication between entrepreneurs and senior managers, and a focusing effect from personal risk to the entrepreneur.

INTRA-CORPORATE ENTREPRENEURSHIP DEFINED

Entrepreneurial activity within a corporation is the ability to create and capture added value beyond that which the corporation is currently doing. Value creation can result from new products or services, improvements in current product or service offerings, or process improvements. Central to the idea of value creation is the concept of innovation. Innovation is closely tied to Entrepreneurship, and is an essential component of fostering entrepreneurial activities within a firm. To foster entrepreneurial activities within an organization is to enable a culture of learning and innovation.

Learning and innovation involve tradeoffs that have to be made against efficiency and performance. Innovation naturally leads to taking risks and exploring new ideas. This runs counter to operational efficiency and also means taking risks that inevitably lead to failures as well as successes. Thus, cultivating entrepreneurial activities within a firm means introducing operational inefficiencies and failures. For firms that follow a low-cost strategy, entrepreneurial activities can lead to a short-run competitive disadvantage against competitors that strictly follow a low-cost strategy. The cost of failure can cut into the thin margins of the established firm. However, the short-run disadvantages can evolve into long-run advantages if the company seeking innovation is successful in creating and sustaining additional value.

Innovation for the sake of innovation is dangerous. While there are many examples of breakthrough "blue sky" innovations that were initiated by zealous scientists or entrepreneurs, the risk of failure in bringing this innovation to market is too much for an established firm to bear. A firm is successful by focusing on a core competency. It can achieve learning and experience curve benefits from continually improving a defined set of corporate competencies. At the same time, a firm must seek out opportunities for focused innovation. Innovation needs to lead to value that a firm can appropriate. Unfocused innovation is costly in terms of time and capital required to develop the innovation.

Market orientation is a critical factor in developing focused innovation. Market orientation consists of three behavioural components: customer orientation, competitor orientation, and interfunctional co-ordination. It is known that market orientation leads to innovation and entrepreneurial activity in firms[1] (Narver and Slater 1990; Kohli and Jaworksi 1990). A market-oriented approach to focused innovation relies on an interfunctional analysis of a firm's value chain to determine ways to appropriate additional value. Thus, an important aspect of entrepreneurial activity is the ability to understand the various functional elements that make a process or product. To be successful at focused innovation, firms need to develop intra-corporate entrepreneurs, who have become known as "intrapreneurs"[2], and who can draw upon cross-functional teams consisting of members with functional expertise.

Innovation leads to many more failures than it does successes. To minimize the impact of the failures to the firm, the innovation cycle needs to happen quickly so that failures happen just as quickly. Faster failures naturally lead to more successes from a learning curve perspective and also from the ability to try many more ideas with the same amount of time and capital. To enable quicker failures means a short-circuiting of the firm's bureaucracy that will be discussed shortly.

IDENTIFYING AND CULTIVATING INTRAPRENEURS

The intrapreneurs are a firm's hands-on champions[3] who develop ideas into added value. The intrapreneurs need not be the source of an idea, though often they are. An intrapreneur's primary purpose is to identify the potential value in an idea and passionately champion the idea within the firm to capture the value. The intrapreneur is a visionary who is internally motivated by challenge and a strong sense of what is needed by the firm, not by promotions. The intrapreneur undertakes great personal risks in the form of forgone time or salary while working to overcome obstacles in the organization. Personal risk is necessary for success, as it serves to increase the intrapreneur's conviction and drive[4]. Obstacles in the organization also challenge the intrapreneur and augment his conviction and internal drive. The risk and obstacles instil a sense of rationality in the intrapreneur. Without personal risk and obstacles, the intrapreneur might pursue ideas with little chance of adding value to the firm. A system of risk and obstacles serves to reinforce the concepts of conviction, drive and focused innovation.

Intrapreneurs are essential to successful innovation. In hundreds of innovation cases studied, Pinchot and Pinchot (1996) were unable to find a single instance of a successful innovation that did not have at least one intrapreneur championing for success. If intrapreneurs are so crucial for success, how can a company identify intrapreneurs among its current employees? If a company is engaged in external recruiting, how will it find those individuals who can become successful intrapreneurs within the company? This question naturally leads to the discussion of behavioural traits of the typical intrapreneur. The intrapreneur exhibits many of the same traits that define a good leader: vision, strong intrinsic motivation, willingness to take risks, ability to rally resources, and history of producing results. Mechanisms that are used to identify and recruit leaders remain valid for identifying intrapreneurs as well.

Middle managers play a key role in identifying and developing individual contributors who show potential for becoming intrapreneurs. To overcome fear of losing top performing subordinates, managers need to be incentivized for successfully identifying high-potential individuals. Managers play a key role in developing high-potential employees through mentoring and formal leadership development programmes. Mentoring helps to cultivate the qualities that enable individual contributors to become leaders. The leadership development programmes should emphasize project management work in cross-functional teams with exposure to the different functional areas within the firm such as assignment to task forces.

Recruiting activities for identifying high-potential contributors should also focus on identifying individuals that have shown a history of success and leadership. Highly motivated individuals invest in continued education through graduate programmes – such as MBAs – as well as through industry contacts, such as networking events or industry task forces. The same intrinsically motivated individuals who invest their personal time and effort to participate in these types of career-enriching events are those who show high potential to be intrapreneurs.

PROMOTING INTRAPRENEURSHIP

Large conglomerates such as Johnson and Johnson and 3M have realized strong performance by emphasizing and encouraging entrepreneurial activities within their organizations. They have built a competitive advantage by focusing on innovation and the ability to develop products and services in a broad market scope. Their ability to do so is the result of their broad market scope and a flat and decentralized corporate structure, based on small autonomous business units. In contrast, the traditional firm is characterized by a narrow market scope focusing on a few related products and/or services. Also, the typical firm is based upon a functional organizational structure, with a vertical hierarchy of management layers organized into functional silos. Though this has led to increasing levels of productivity and operational effectiveness for the firm, it has come at the cost of innovation and creativity. The very nature and structure of the modern corporation is centred on increasing the efficiency of performing specific functional tasks and not on innovation.

Short of restructuring the entire organization, which can affect a firm's ability to compete on its unique value proposition, how can a firm encourage entrepreneurial activities in a structure that is so unfriendly to innovation? A firm is able to implement mechanisms and structural improvements that can encourage Entrepreneurship without restructuring the entire organization. Earlier we described personal risk and obstacles as necessary for developing conviction, drive, and focused innovation in the intrapreneur. This leads to the argument that a firm need not remove all obstacles as long as there exist mechanisms to overcome those obstacles. We will now discuss mechanisms that can enable an intrapreneur to innovate within the typical firm structure.

Within the vertical organization, intrapreneurs act as horizontal facilitators who bring together contributors across all functions to champion an idea. This structure requires buy-in from functional managers and increased coordination. The contributors from the various components of the value chain will be accountable for the work they perform in their functional areas as well as the work they do for the intrapreneur. An incentive system rewarding functional managers and contributors for their cooperation in entrepreneurial teams will act as a mechanism to address this obstacle.

The bureaucracy imposed by a vertical hierarchy results in an inability to make timely decisions, ineffective communication between senior management and line managers, and ineffective communication between functional groups. Intrapreneurs, in their horizontal facilitator roles described above, can address issues with innovation arising from ineffective communication between functional groups. On the other two dimensions, intrapreneurs should be organized in a separate hierarchy with very minimal layers of management between the intrapreneurs and senior management. Intrapreneurs need not and should not be given high levels of authority. However, they must be able to communicate and champion their ideas directly to senior management. The intrapreneur must be given autonomy and the ability to make decisions. This increased level of autonomy and communication will result in the intrapreneur's ability to fail at an earlier stage of each venture, which naturally leads to more successes. Along with the increased responsibility, commensurate levels of accountability will also be assigned. This increased responsibility will serve to further focus innovation, and reinforce conviction and drive.

Most important to the promotion of intrapreneurship will be the alignment of the firm's culture to a new vision of innovation. Support from senior management along with buy-in from functional managers will be critical to successful intrapreneurship. A new vision that stresses the importance of innovation to the success of the company will need to be communicated to all employees.

BENEFITS TO THE FIRM

What results can the firm expect to see from an intrapreneurial culture? Whether the firm expects to realize increased process efficiencies, increased market share, or increases to the bottom line, the results of intrapreneurship can result in wide-ranging benefits to the firm. The underlying culture will undergo a profound change, as innovation becomes part of the firm's values. Turnover of top talent will decrease, as employees realize the firm's commitment to their ideas and work. Leadership development through mentoring and formal leadership development programmes will facilitate recruitment of talent.

The firm's organizational structure may evolve as the intrapreneurial culture takes hold, leading to decentralization with autonomous business units. The new business units will take shape as innovation leads to new markets and opportunities. Increased autonomy and empowerment of employees will also diminish the need for a hierarchical organization structure, leading to a flatter and more innovation-friendly environment. This evolved form of organization will allow the firm to realize sustained competitive advantage through a continuous cycle of innovation and prepare the firm to deal with industry changes and shocks.

IN CONCLUSION

The mechanisms to promote intrapreneurship do not necessarily rely on complete organizational restructuring. However, important structures and mechanisms will need to be designed to realize continued success in innovation:

Renewed corporate vision – A new corporate vision that treats innovation as fundamental will need to be communicated throughout the company to enable buy-in at all levels of the organization.

Support from management – Direct support from senior management and middle managers will be necessary for the intrapreneur to successfully champion an idea.

Intrapreneurs – Intra-corporate entrepreneurs who act as idea champions will need to be identified and developed through mentors and formal leadership development programmes.

Direct channels of communication – Direct channels of communication between intrapreneurs and senior management will enable the intrapreneur to successfully champion an idea and innovate quickly.

Personal risk and obstacles – Personal risk and obstacles serve to reinforce the concepts of conviction, drive and focused innovation in the intrapreneur. A system that makes it too easy to innovate can lead to destructive innovation.

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4 Pinchot, E., and Pinchot, G. (1978). "Intra-Corporate Entrepreneurship"

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Germany

SDA BOCCONI
BY CHRISTOS KONTOS, PHILIPPE LEUENBERGER, GABRIELE ALLEGRI

Corporate Entrepreneurship

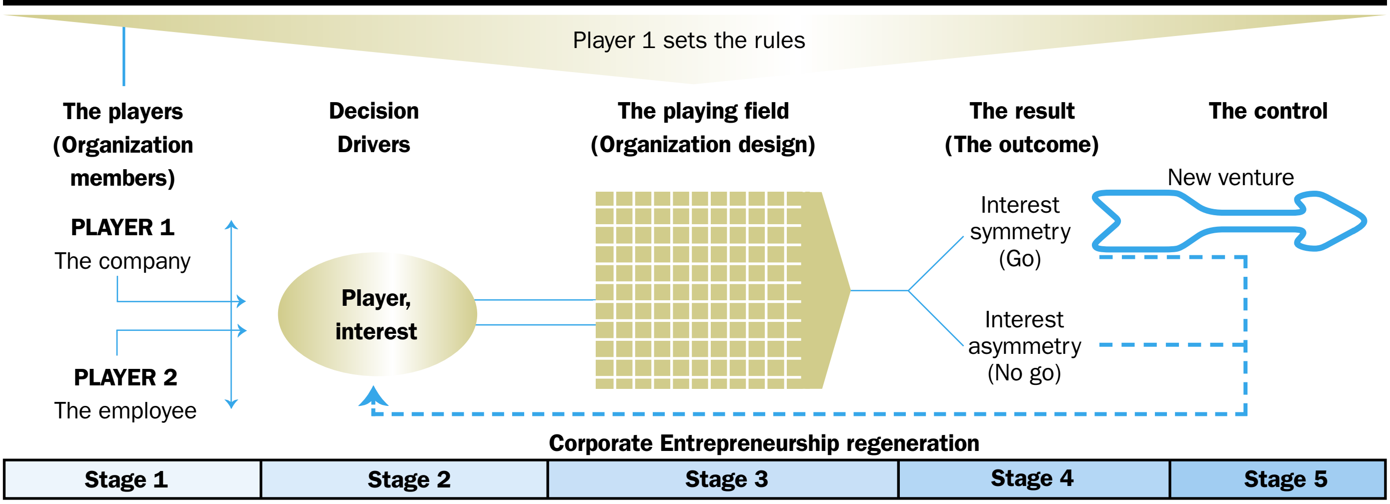
This paper presents our approach to the issue of corporate Entrepreneurship. We first identify and model the basic parameters shaping any corporate or individual game plans. We then go on to consider organizational frameworks for ensuring that all players seek results in which everyone wins. Finally, we describe particular measures for leading companies into the corporate Entrepreneurship era.

OUR MODEL

We describe our model as a game with two participants, the employee and the company. We take for granted that players are willing and zealous enough to advance their entrepreneurial interests. However, each one of the two players is driven by different interests. In our analysis we try to identify these drivers as well as the potential game path of each player. We consider the game ends successfully when both players reach mutual agreement i.e. the creation of a new corporate entity. At this point, both participants enjoy interest symmetry. Where this is not the case, there is interest asymmetry between the participants. However, our game is not a one-play game. Its continuity over time has to be asserted. The two components that we assume to be critical to system evaluation are (a) the number of mutual agreements and (b) the number of efforts over time.

Paradoxically, the company is the only one setting the rules of the game. However, should the company try to set rules that only serve its own interests, this could deter the other player from taking part. On the other hand, the company has no incentive to set game rules that run completely counter to its interests. As a matter of fact, a balanced approach has to be examined. The point where both parties have a mutual interest in playing, exchanging information and examining the potential for collaboration is what shapes the playing field. Such a field is the desired optimal organisation structure that satisfies the entrepreneurial propensity of both parties. It is also the outcome sought by the company.

EXHIBIT 1 OUR MODEL THE "CORPORTATE ENTREPRENEURSHIP GAME"



THE PLAYERS AND THEIR INTERESTS (STAGES 1&2)

The employee - entrepreneur

The first participant in the game is the employee – entrepreneur. For reasons of simplicity, we will use the term "entrepreneur" to refer to both an employee and to a group of employees who may develop entrepreneurial actions. We identify[1] three major parameters that characterise any entrepreneurial activity by an employee, namely:

- Opportunities arising (O_p)
- Feasibility of putting ideas into action (F)
- Expected benefit for the employee ($EB_{employee}$)
- Opportunity cost (O_c)

Opportunities arising (O_p) are the number of entrepreneurial ideas that the employee may encounter within the internal or the external corporate environment. A corporate Entrepreneurship environment should increase the number of opportunities generated internally as well as encourage the employee to materialise his externally generated opportunities within the corporate framework.

According to our model, **feasibility (F)** has to do with whatever kind of resource might be of interest to the entrepreneur (financing, technical knowledge, etc.). Higher quantity and quality of resources leads to higher feasibility and vice versa.

The **potential economic benefit** is the return that the entrepreneur requires from the potential venture. It incorporates the entrepreneur's level of accepted risk (risk preference), the maturity of the investment (liquidity preference) and the return on the investment. We name this potential economic benefit of the entrepreneur as "economic push for the entrepreneur" (EPSentrepreneur), and in this way we can distinguish it from what we call as "economic pull for the entrepreneur" (EPLentrepreneur), which is simply the opportunity cost of changing his employment status.

Based on the above analysis, the propensity to Entrepreneurship for the employee ($EP_{employee}$) can be expressed as a function of:

$$EP_{employee} = f\,(Op, F, EPS_{entrepeneur}, EPL_{entrepeneur})$$

Since the current economic status (opportunity cost) as well as the potential economic benefit can be easily quantified by the entrepreneur, we define the "Net Economic Benefit for the entrepreneur" ($NEB_{entrepreneur}$) as:

$$NEB_{employee} = EPS_{entrepeneur} - EPL_{entrepeneur}$$

However, this relationship reveals a necessary condition for the entrepreneur, namely that the employee will pursue an entrepreneurial activity as long as he can derive a positive net economic benefit from it. Thus:

$NEB_{employee} > 0$ or $f\ EPS_{entrepeneur} - EPL_{entrepeneur} > 0$

or $EPS_{entrepeneur} > EPL_{entrepeneur}$

The entrepreneurial propensity of the employee therefore takes the following form:

$EP_{employee} = f\,(Op, F, EPS_{employee})$ with de restriction that $NEB_{employee} > 0$

From this relationship, there is clearly a positive relationship between the entrepreneurial propensity of the employee (EPemployee) and the three drivers. More specifically, the employee will develop Entrepreneurship activities when:

- the opportunities arising (Op) are greater
- the feasibility and resources available (F) are greater
- his net economic benefit (NEBemployee) is greater

The purpose of the company (the player setting the game rules), would be to create an organisational and operational framework (playing field) that maximises the impact of the above factors for the employee.

THE COMPANY

The company is the other player in our game, and conceivably has the ability to set the rules of the game to suit its own interests. We identify four parameters that form the universe of potential motives as well as threats for the company regarding entrepreneurial activity. Among these four parameters, three of them can be regarded as impediments to corporate Entrepreneurship, since they concern situations that run directly counter to the company's interests. They are:

- **Loss of control *(LC)* of existing business operations**
- **Potential creation of competitors through the new venture (PC)**
- **Potential lost income *(PLI)***

Loss of control *(LC)* necessarily has to do with the loss of control of the existing business arising from the addition of more procedures and tasks, the shifting/depletion of resources, and changes in organisational structure as a result of the new entrepreneurial venture.

Moreover, in the case of a completely new venture, the long term potential for turning the initiative into one that **competes with the existing core business (*PC*)** may make the company unwilling to get involved in this kind of entrepreneurial activity at all.

Lastly, the company's **potential lost income** can be considered as the opportunity cost of not changing the firm (i.e. in terms of business practices, income stream, etc.). We call the potential lost income the "economic pull for the company" ($EPL_{company}$) since it will make the company draw back from undertaking any entrepreneurial activities.

As far as the reasons for the company to take part in the game, we identify the **potential economic benefit** – which we will call "economic push for the company" (EPS) – as the sole driver of corporate Entrepreneurship.

As a matter of fact, the company's propensity to Entrepreneurship ($EP_{company}$) can be described as:

$$EP_{company} = f\,(LC, PC, EPL_{company}, EPS_{company})$$

As we mentioned before, two out of these four drivers are qualitative and thus non-measurable, and two are directly related to economic benefits and therefore can be quantified. If we define the Net Economic Benefit for the company ($NEB_{company}$) as the difference between economic push and economic pull, namely,

$NEB_{company} = EPS_{company} - EPL_{company}$

the entrepreneurial propensity for the company $EP_{company}$ becomes:

$EP_{company} = f(LC, PC, NEB_{company})$

Given this relationship, the necessary condition for the company to get involved in entrepreneurial activities will be:

$NEB_{company} > f(LC, PC)$ or ***$NEB_{company} - f(LC, PC) > 0$***

This relationship reveals that the company will accept any proposal only if the net expected economic benefit (after having adjusted for potential lost income) outweighs the potential loss of control or the potential threat of creating competition. There is thus a trigger level, which establishes the minimum conditions that have to be satisfied in order for the company to undertake entrepreneurial activities.

Based on the above equation it can readily be appreciated that the company has an interest in:

- **Increasing its net economic benefit**
- **Decreasing its potential loss of control**
- **Reducing the risk of ventures spurring competition**

Various scenarios can be created, based on the differences in interest drivers (Horizontal gaps – Interest driver gaps), or the level of the entrepreneurial propensity of the players (Vertical Gaps – Interest Advantage gaps).[2] If we take the company's desire to achieve a win-win result for granted, we can then establish game strategies. We have considered plays involving a decrease in the employee's propensity to entrepreneurial activity, or a decrease in opportunities arising and feasibility as unacceptable. We only examine the company side since this player establishes the rules of the game (see next Section).

EXHIBIT 2 : POSSIBLE PLAY SCEENARIOS BY THE COMPANY

INTEREST ADVANTAGE GAP (LEVEL OF ENTREPRENEURIAL PROPENSITY) – VERTICAL GAP	
$EP_{company} > EP_{employee}$	Communicate the importance of corporate Entrepreneurship to the employees, inspire them, try to raise the level of $EP_{employee}$, by increasing the level of employee interest drivers (e.g. feasibility - resources) or by challenging them to increase their entrepreneurial propensity for a given level of interest drivers.
$EP_{company} < EP_{employee}$	Do not decrease level of interest drivers of employees, but try to capitalise and benefit from the situation by establishing stricter contractual agreements.

INTEREST DRIVER GAP (LEVEL OF INTEREST DRIVERS) – HORIZONTAL GAP	
$EP_{company} > EP_{employee}$	Company could lower its own entrepreneurial propensity but we believe this would hamper corporate Entrepreneurship. Instead, the company could simply increase the level of LC and PC it is willing to accept, thus lowering its minimum cut-off point. Depending on the level of the gap (big or small) the company could increase the entrepreneurial propensity of its employees by motivating them more or also giving them access to greater resources and entrepreneurial opportunities (thus strengthening their interest drivers).
$EP_{company} < EP_{employee}$	Company should increase the level of LC and PC it is willing to accept, thus lowering its minimum required cut-off point, or even increase its entrepreneurial propensity for a given level of interest. Alternatively, it could give the employee access to greater resources and entrepreneurial opportunities, thus strengthening their interest drivers.

The following table summarises the analysis of the players' interest drivers with regard to getting involved in entrepreneurial activities.

EXHIBIT 3 : INTEREST DRIVERS ANALYSIS FOR THE PLAYERS

INTEREST DRIVERS

	Qualitative Drivers				Quantitativ		
	Op	F	LC	PC	$NEB_{employee}$	$NEB_{company}$	
Entrepreneurial propensity for the employee $EP_{employee} = f(Op, F, NEB_{employee})$	+	+			+		Vertical Gap Interest Advantage gap (Level of Entrepreneurial Propensity)
Entrepreneurial propensity for the company $EP_{company} = f(LC, PC, NEB_{company})$			-	-		+	
	Horizontal Gap Interest Driver gap (Level of interest drivers)						

(+) Indicates positive relationship, (-) indicates negative relationship

The above conclusions will underlie all the company's choices in terms of structure, processes, allocation of resources, contractual agreements etc. All these organisational components should be carefully examined by the company in defining the playing field for Entrepreneurship. In the next session, we will identify how this can be achieved.

THE PLAYING FIELD (STAGE 3)

So far we have seen the alternative strategies that a company may pursue to achieve a win-win situation. However, the real challenge for companies is to discover a way of providing embedded mechanisms for corporate Entrepreneurship. Each company will have to establish its own unique playing field, which involves drawing up suitable design structures and rules. This will facilitate the achievement of participants' goals and give the company a sustainable competitive advantage. The company has to undergo a transformation on several levels. Among other things, this involves:

1. Making corporate Entrepreneurship a strategic issue by reflecting it in the mission statement.
2. Clearly communicating a willingness to facilitate entrepreneurial initiatives at all levels of the organisation.
3. Changing the organisational structure to provide a breeding ground for entrepreneurial behaviour and to give maximum support for turning new ideas into action.

The new strategic orientation has to be aligned with the organisational structure if it is to give the company a sustainable competitive advantage. The creation of a new and fully independent department is a step in this direction. We term this the "New Business Development Department"

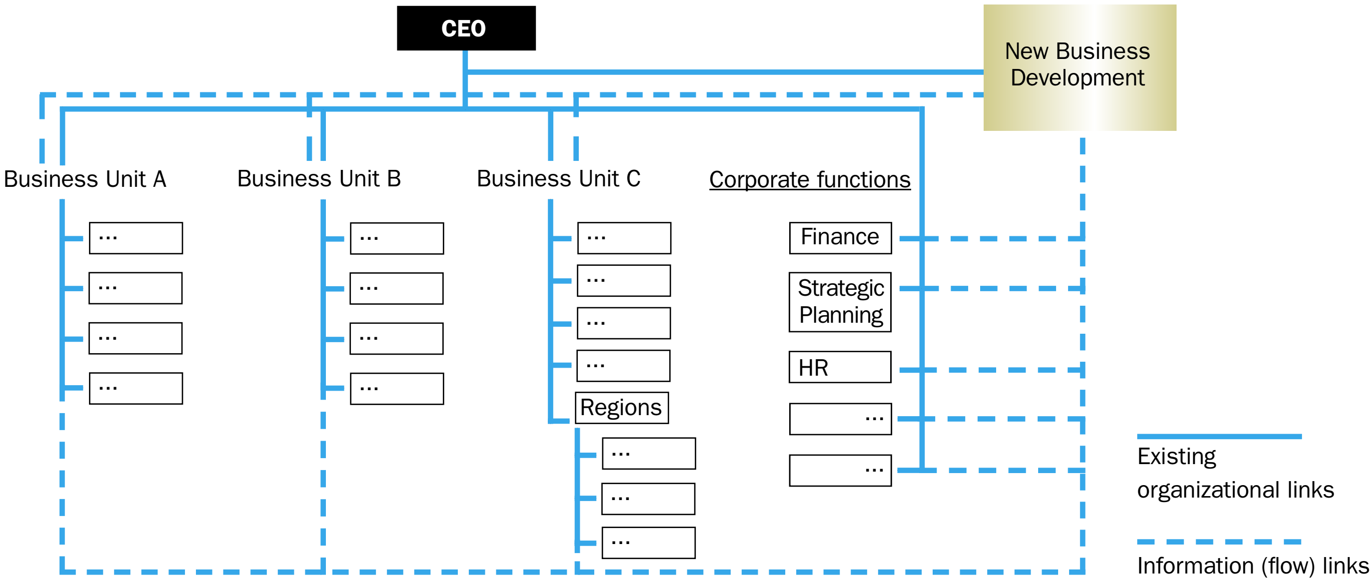
Organisation Chart

We propose a separate and independent organisational entity, characterised by:

- operational independence, and
- information efficiency[3]

This new department processes all entrepreneurial initiatives and supports employees in developing, structuring and formulating their new ideas.

EXHIBIT 4 : OUR PROPOSED STRUCTURE "NEW BUSINESS DEVELOPMENT DEPARTAMENT"



The focal point is the operational autonomy of the new department. Our proposed structure can be applied to almost any business framework and thus addresses concerns regarding size[4], centralisation[5], control[6], commitment[7], etc. The most important intrinsic features of our proposed playing field are dealt with below.

Characteristics of the playing-field

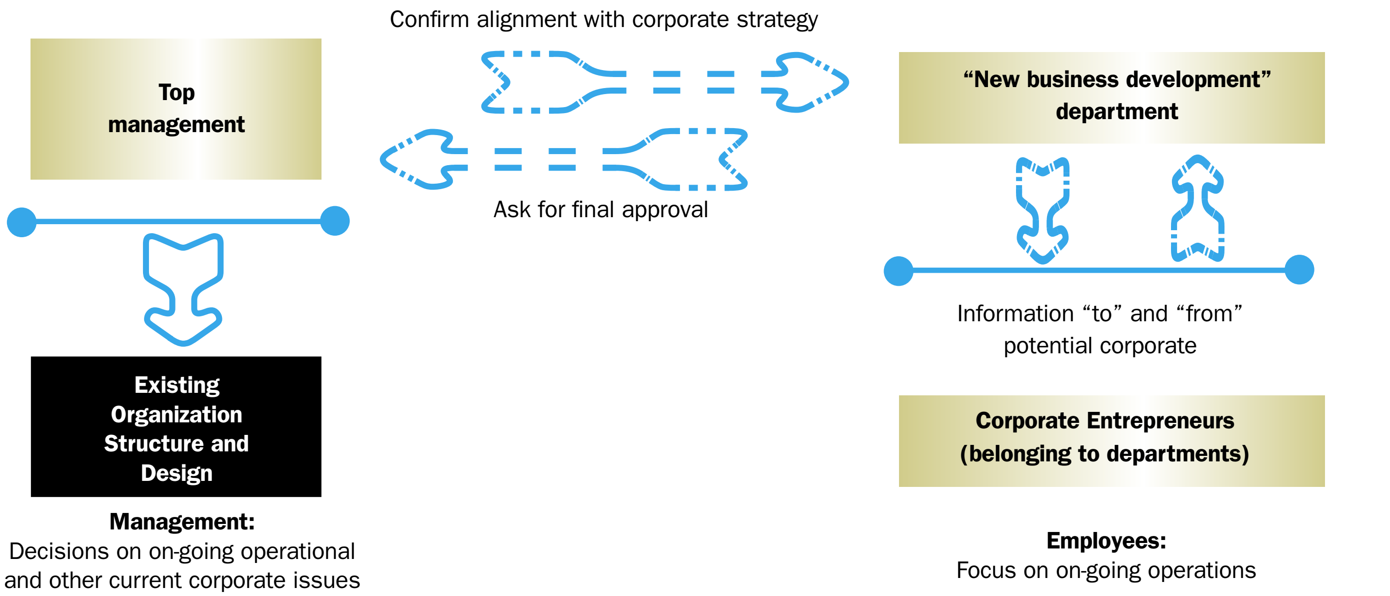
Three basic characteristics are incorporated in the company design to automatically balance divergent interests and lead the parties to the desired win-win outcome. These features are:

- Independence and top management support
- Protection of both players' interests
- Effective communication

Independence and top management support: The new department is fully independent from the operational line of command. It is put under the direct control of the CEO or an executive management committee to ensure careful examination and formal approval of the ideas embodied in the new ventures.

This structure, allows the "New Business Development Department" to fully implement its role independently from current company operations, and provides a system for giving new ventures formal corporate approval.

EXHIBIT 5 : INDEPENDENCE AND TOP MANAGER SUPPORT

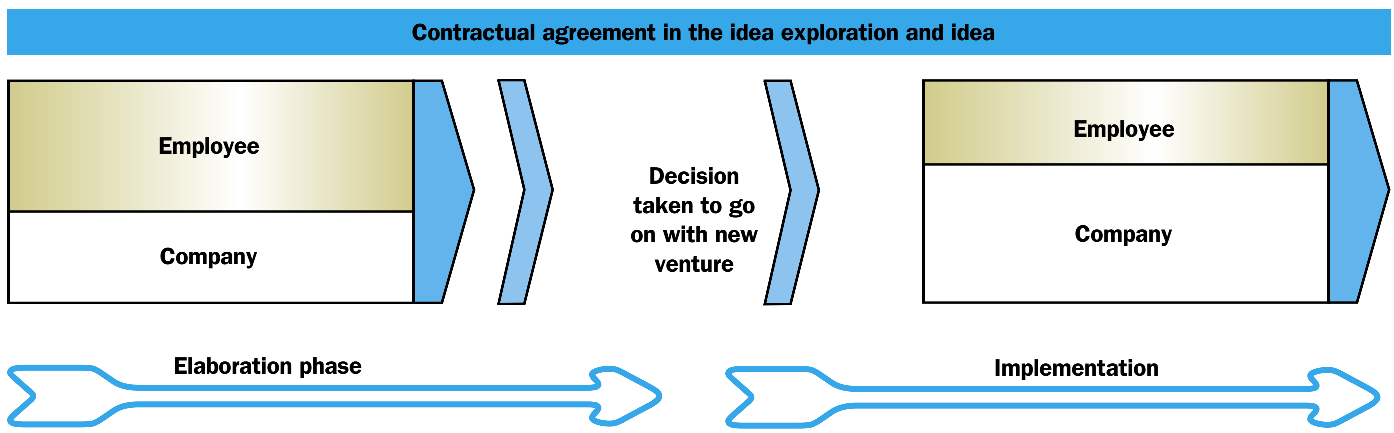


Protection for both parties: The interests of both parties are protected by official guidelines and mutual agreements. However, contractual agreements at the pre-agreement stage mainly serve employee's interests, whereas they mainly serve company's interests at the post-agreement stage.

As such, employees are motivated to actively accept corporate Entrepreneurship challenges, yet the company can still protect itself against any threats that may arise in the future.

The following exhibit briefly presents how protection for both players is achieved.

EXHIBIT 6: PROTECTION OF BOTH PARTIES THROUGH CONTRACTUAL AGREEMENTS



...employees more protected ...

- Encourage idea creation
- Motivate idea generation and communication of the idea
- Declare company's commitment to Entrepreneurship
- Inform employees of resource availability

...this will result in....

- Enhance inspiration and spread over enthusiasm that ideas lead to great results

...company more protected ...

- Define control mechanisms
- Control over flow and use of external resources
- Strong say in setting management mechanisms (board)
- Protection of patents, share in intellectual property

...this will result in....

- Alignment of new venture with current corporate strategy
- Reduce potencial threat-risk factors

Communication channels: The new department will be the focal point of reference for any Entrepreneurship initiative within the business framework and the sole recipient of all relevant information. Additionally, the fact that the special channel for ideas is designed to share information greatly increases the number and quality of ideas produced and hence the number of projects finally selected.

Comunication and its channels

- On-line accessibility
- Electronic submission
- Video - conference meeting
- Electronic database
- Intranets
- Pre-arranged

Benefits of the proposed playing-field structure

According to our basic model, the propensity for Entrepreneurship differs between the company and employees and is described by the following equations:

$$EP_{company} = f\,(LC, PC, NEB_{company})$$

$$EP_{employee} = f\,(Op, Feasibility, NEB_{employee})$$

Based on the above equations, we can identify two sets of drivers:

***Quantitative drivers: NEB** $_{company}$ **, NEB** $_{employee}$*

Quanlitative drivers: LC, PC, Op, F

Accepting that both players have a fairly clear picture of quantitative aspects of entrepreneurial projects, the nature of the playing field affects qualitative factors, specifically:

- Increase *Op, F* for the employee and
- Decrease *LC, PC* for the company.

The point where Op and F will be high enough for the employee and the LC and PC, will be low enough for the company, thus establishing an equilibrium point[8] for putting new entrepreneurial ideas into action.

EXHIBIT 7: IMPACT OF THE DESIGN CHARACTERISTICS ON ENTREPRENEURSHIP DRIVERS

Characteristics	Employee Interest Drivers		Company Interest Drivers		Comments
	Opportunities arising (O_p)	Feasibility (F)	Loss of control (LC)	Potential competition (PC)	
Independence & support	■	■	■	■	Department's independence promotes its role in gathering, disseminating, and processing entrepreneurial information. The fact that all qualified projects require top management's approval safeguards against strategy deviations
Protection	■	■	■	■	Written commitment to provide entrepreneurial help to employees at all the stages of the process (use of resources). After agreement, tailor contract to protect company's interests, still put idea into action
Communication & channels	■	■	■	■	Dedicated channel to exchange entrepreneurial ideas. Easy access to information about resources. The company still provides the network. The more employees are encouraged to look outside-the-box, the less likely they are to act against the box.
Comments	Corporate environment encourages entrepreneurial idea generation and exchange. Employees are given full information concerning availability of resources and also full support to present and elaborate on these entrepreneurial ideas.		The company has the opportunity to weed through a wide range of entrepreneurial ideas. It can also contractually control qualitative aspects of the new venture without altering its importance for the entrepreneur.		

CONTROL AND THE REGENERATION PROCESS (STAGE 5)

So far we have explained the playing field needed to ensure a win-win result. But we still need to find a way of ensuring the continuity of a corporate Entrepreneurship culture.

The continuity of the process depends on two considerations: (1) if mutual agreement is reached on the idea, the players still have to maintain interest in the process and plan for the next potential agreement, and (2) even where the entrepreneurial initiative is turned down, systematic mechanisms and processes should be put into place to guarantee future progress and avoid the parties involved becoming demoralised by temporary setbacks.

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Previously he served two years as consultant in MicroStrategy, based in USA as responsible for new product development and as project manager. He started his career as business developer in Exor International: based in Germany after a Master Thesis focused on the study of Virtual Organizations.

WHARTON SCHOOL, UNIVERSITY OF PENNSYLVANIA
BY NATALIE KULIK, PATRICE MOLINARI

Corporate Venture Capital and a Network of Alliances with Venture Capital firms as a source of radical innovations

The ultimate goal of corporations to be successful market leaders, maximize profits on existing products and increase the firm s value has often stigmatized their responsiveness to break-through technologies and encouragement of entrepreneurial spirit. Locked into the dominant design and rigid organizational structures, modern corporations are nowadays forced to compete fiercely for innovations not only with direct competitors, but also with venture capitalists, angel investors, network brokers and bootstrap entrepreneurs.

As a result, in the new-age economy, Corporate Entrepreneurship has emerged as a major challenge for firms that have grown out of their initially small and flat structures into complex conglomerates with businesses operating across continents and cultures.

DIVERGENT ASPECTS OF CORPORATE ENTREPRENEURSHIP

The very term Corporate Entrepreneurship seems to have a paradoxical nature where corporate implies the system, procedures and structure, while Entrepreneurship suggests the opposite notion of individual initiative and creativity. Besides, Corporate Entrepreneurship is a multifaceted concept and includes such aspects as intrapreneurship (G.Pinchot, 1976), new venture creation within the existing organization (Burgelman, 1984), reinventing the corporation by utilizing available resources (Baumol, 1986), internal Corporate Entrepreneurship (Schollhammer, 1982), corporate ventures (Ellis and Taylor, 1987; McMillan et al., 1986) and venture capital management (Kuratko et al, 2000).
With some researchers questioning the value of Corporate Entrepreneurship to implement corporate development (Bouchard, 2003; Stevenson & Jarillo, 1990), the discrepancy of definitions and their widely divergent interpretations underline the nature of the challenge that is constantly raising strategic, organizational and operational dilemmas for the corporate world.

CURRENT CORPORATE EFFORTS DO NOT MEET FUTURE CHALLENGES

Today the means to elicit corporate entrepreneurial activities encompass several models.

1. STRUCTURAL MODELS

The traditional structural approach is to establish **internal R&D divisions** that fulfil the role of in-house generator of innovations. In place for a number of years, this strategy has become instrumental for such industry leaders as Merck, 3M and Phillips Royal Electronics.

The structural model also includes **internal ventures** that operate autonomously and sometimes complement R&D efforts, like Raytheon NPC that generated over 50 new products and millions in revenues over a 20-year period (Bouchard, 2002).

The shortcomings of this approach are ever increasing R&D costs that may constitute billions of dollars for a new drug, the culture of the organization that sometimes may not endorse an entrepreneurial spirit, the inability of the firm to act as an "ambidextrous" entity and limitations of the innovation scanning process done by a single firm. Besides, structural integration of these models into the firm-wide environment is difficult due to a large discrepancy of rewards for corporate entrepreneurs and employees from other departments that impacts corporate morale and often leads to inter-divisional conflicts.

2. INTRAPRENEURSHIP MODELS

Intrapreneurship is a firm-wide approach to develop and attract employees who can spearhead changes and innovations within the firm. The examples of such an approach are both formal and informal. Companies like 3M instituted **formal programmes** such as Genesis Grant to finance innovative projects of employees and a 15% Rule whereby inventors dedicate 15% of their work time to projects they think might have a merit for the company and that later compete for financing. The CREATE Programme at Boeing has led to such successes as IntelliBus Network technology and several joint ventures.

An **informal model** fostering the very environment of innovation is exemplified by Sun Microsystems and gave birth to Java and JXTA technologies.

The biggest drawback of these models is an insufficient reward system for entrepreneurs who may obtain better benefits outside the firm since venture capital firms (VCs) can easily match the compensation and the environment in which entrepreneurs thrive.

3. HYBRID MODELS

Hybrid models combine the features of structural and intrapreneurship models and use corporate venture capital (CVC) extensively. Incubators (Nokia NGB, Roche Diagnostics), spin-outs (Thermo Electron s 23 ventures) and carve-outs, which are start-ups created as an independent company and capitalized by a parent corporation and an outside investor (Electronic Foodservice Network of MacDonald s), are strategies that have been pursued to overcome organizational challenges and cultural clash within corporations.

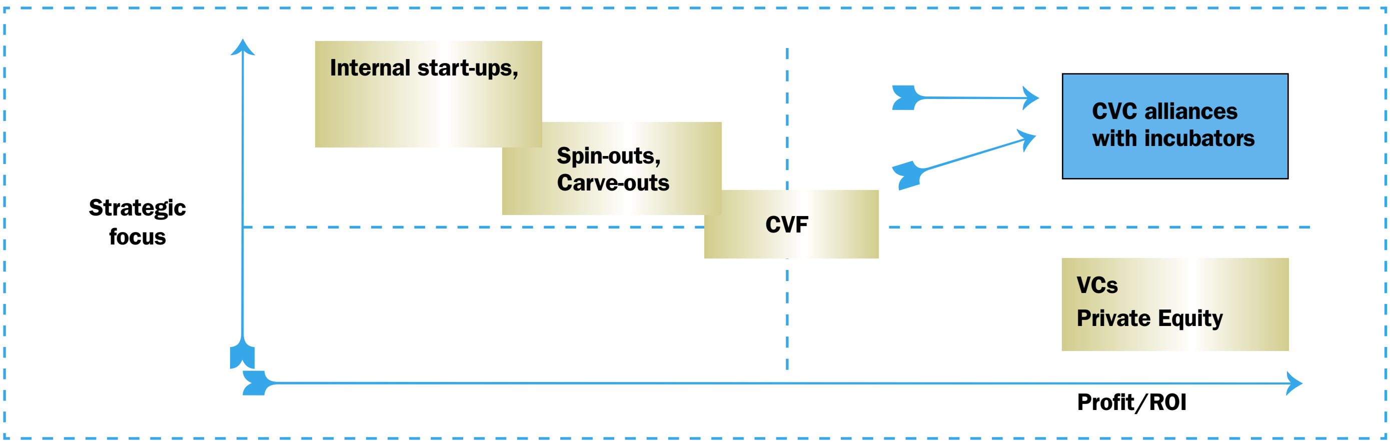
Another model, the Corporate Venture Funds (CVF), is still largely undiscovered by firms, even though some CVFs have had substantial success (Intel, Johnson & Johnson, Lucent VP, GE Equity, Xerox Technology Ventures (XTV), Siemens, Nokia VP). Some of these funds are as large as $1.5 bn (GE Equity) and some spin-outs have already produced the third generation of alike start-ups (Thermo Electron).

However, the strongest drivers of CVC allocations are economic cycles, since in downturns the corporations significantly scale back their investments and make corporate ventures an unstable structure. Besides, with dependence on the surplus cash of the parent company, CVFs are not as competitive as venture and private equity funds that have a stronger commitment of the investor community and can raise funds for up to 17 years.

Even though they have a potential for high financial returns (XTV s IRR was 56% after fees and compensations and GE Equity ROI is 30- 40%), for innovation discovery and commercialization, CVFs evolve over time and as a result may have different goals from those of a parent company (XTV s failure to capitalize on its success and a number of innovations).

Structural, intrapreneurship and hybrid models of Corporate Entrepreneurship are applicable today, but tomorrow may not be sufficient for companies to remain innovative, responsive to the market and yet economically viable. The major reason is

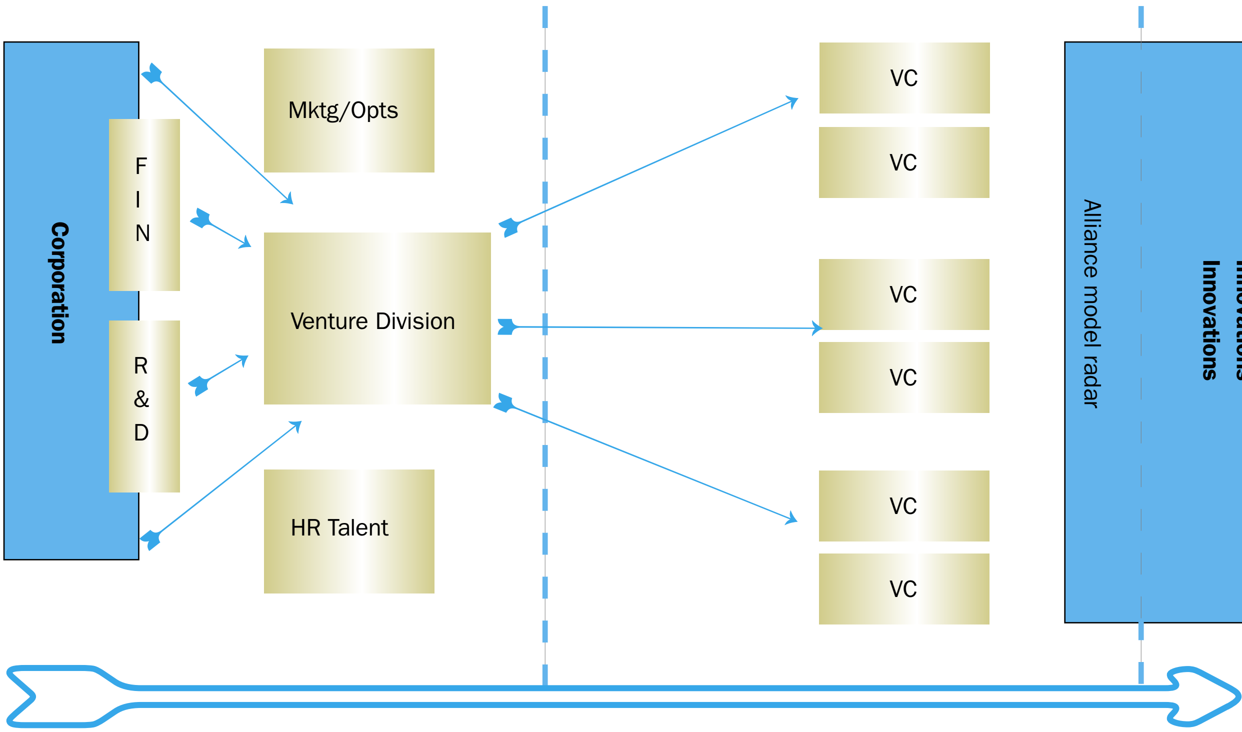
EXHIBIT 1. STRATEGIC FOCUS VS. PROFIT IN CORPORATE ENTREPRENEURSHIP MODELS



that the fluid strategic advantage, increasing costs pressure on R&D and human capital preclude corporations from obtaining an adequate scanning of the environment to find the technologies of the future.

divisions. This structure shifts the radar of the corporate screening for innovations (red line) from the Venture Division frontier (hybrid models of Corporate Entrepreneurship) to the extreme right, closer to Innovations and Innovators.

EXHIBIT 2. INTEGRATIVE MODEL: NETWORK OF ALLIANCES WITH VENTURE CAPITAL FIRMS



To become a successful entrepreneurial organization, the firm has to produce a stream of innovations systematically and consistently, and have an appropriate, supporting organizational structure, culture and top management commitment. The answer to this challenge is both to develop an efficient screening process for innovations that are currently beyond the "radar" of the firm and to execute the most promising projects.

The potential of CVC to generate attractive returns and the recent success of inter-firm alliances whose value creation significantly outperformed that of mergers and acquisitions (McKinsey, 2003) suggest synergies of an alliance between the corporation and VC firms. This solution will fulfil both the strategic goals of the corporation and its bottom-line objectives to a larger extent than other models (**Exhibit 1**).

INTEGRATIVE MODEL: NETWORK OF ALLIANCES WITH VENTURE CAPITAL FIRMS

We suggest an integrative Corporate Entrepreneurship model a network of alliances with venture capital firms - a flexible, low-cost/low-risk option for a firm to become a global scanner for innovations in the technological Race for the Future (Exhibit 2). The model depicts the corporate Venture Division as a linking mechanism in the alliance between the VCs and

The proposed model is well justified across the co-option and co-specialization value logic types. Further, the proposed alliance provides a broad competitive advantage as corporations strive to keep pace with global technology and social changes.

CO-OPTION

Market leadership

Leveraging the proposed alliance, a corporation can capture the nodal position in the market space and secure it over the long-term by having blockbuster products in its pipeline or acquisition targets graduated from successful start-ups. Once ventures are economically viable, VC will enhance its reputation and attract more entrepreneurs, potentially increasing the number of high quality business plans submitted to it for financing.

The partnership will also enable the corporation to take advantage of VC s business evaluation methodology and already established network with entrepreneurs.

Filling "institutional voids"

The supply of high quality entrepreneurial ideas is very fragmented and the demand for them is high. The already established academic and business networks are less likely to share their proprietary knowledge with the firm, fearing loss of intellectual property and high potential returns offered by VCs. Scanning possibilities provided by VCs to the firm will fill institutional voids (Khanna, 2002), creating stronger links with the entrepreneurial community.

CO-SPECIALIZATION

The resource-based competitive approach is directly applicable to the proposed model, since the partners' resources are "complementary," valuable when supported by innovative technologies, and "necessary to make the new concepts and innovations succeed." (Teece, 1986). The firm and VCs will jointly benefit from each other's resources. Monitoring a start-up can be a costly process for VC, and the corporations can provide expertise due to their processes and achieved efficiencies. The firm will become an important source for start-up top management that will come from the pool of corporate entrepreneurs - thus minimizing the search cost of CEOs incurred by VCs.

VC's assets, including access to the vast body of entrepreneurs and scientists, and their proprietary due diligence models, will ensure the constant inflow of high-quality business ideas for a potential funding from the alliance. Further, both partners will benefit from externalities that will optimize networking connectivity across a particular industry.

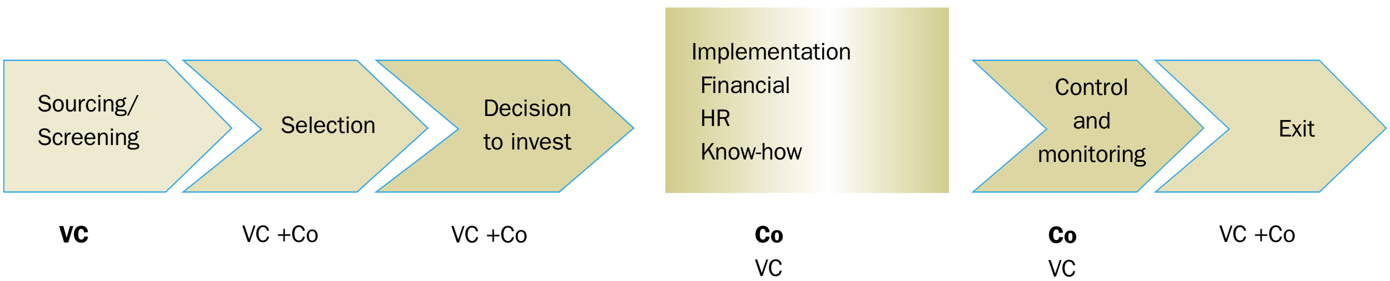
2. Project dependency on corporation is less attractive to VCs who prefer flexibility.
3. Corporate organizational structure is not usually supportive of start-ups and commands radical changes, a reason why few companies have become ambidextrous (O'Reilly & Tushman, 2004).
4. Culture of corporations and that of VC firms may be very different.

IMPLEMENTATION

The design and terms of the alliance are crucial to the successful inception and execution of future ventures. Reflecting both the flexibility and clear linking mechanism between partners, the structure (**Exhibit 2**) builds on complementarities of assets and reciprocity of communication, information exchange and operations.

The detailed structure of the Venture Value Chain outlines that the VC firm (VC) will take a lead in sourcing innovations while the corporation (Co) will contribute significantly to the implementation and control phases (Exhibit 3).

EXHIBIT 3. VENTURE VALUE CHAIN



LIMITATIONS OF THE MODEL

Radical innovations focus. The model has an application in technology-intensive industries (biotechnology, consumer electronics, IT) where radical innovations can rapidly eradicate the advantages of incumbents. The alliance provides an improved and expanded screening process to detect crucial innovations.

External Corporate Entrepreneurship focus. The corporations had already devised a number of successful strategies to capture and commercialize innovations emerging within their structure. Both VCs and corporations will be less interested in developing a partnership for internal ventures for the following reasons:

1. Risk of a failure within the corporation is perceived as a threat to the management/entrepreneur s status (McGraph, 1995). This may result in the firm s resistance to exit from unsuccessful ventures when facing corporate and personal image dilemmas (Motorola Iridium venture failure after 12 years of technology development and excessive sunk costs).

BENEFITS AND VALUE CREATION

The proposed alliance builds both on strategic advantages of the alliance s structure and on CVC benefits:

1. Proved superior performance of alliances.

   Alliances have demonstrated superior success rates for developing new products (57%) and entering new markets (62%) vs. 40% and 8%, respectively, for acquisitions (McKinsey, 2003). Alliances are contributing an increasing share of revenues to corporations that are projected to be 36% by 2005 (Columbia University et al., 2003);

   Average alliance ROI of top 20% European alliances is 25% vs. 15% of the average ROI of Fortune 500 companies (Pekar, 2003)

2. Corporate Venture Capital is a powerful and low-cost development tool for corporate innovation.

   CVC is still an untapped source of value creation and innovation sourcing. The evidence from the survey of twenty-three hundred public firms over a twenty-year period demonstrates a high correlation of CVC investment and the level of patent citations (Dushnitsky & Lenox, 2002).

3. The CVC risk hedge is further enhanced by the network of alliances.

The real time option value of CVC is a strategic mechanism for corporations to hedge against the risks in technology and industry structure change. The proposed model also reduces risk of insufficient portfolio diversification of existing models, since the corporation will be able to invest in a number of VCs. Besides, the flexibility of such an investment allows both divestitures, acquisitions of potential targets from start-up and accumulating business intelligence knowledge.

CONCLUSION

The article suggests extending the existing models of Corporate Entrepreneurship to new frontiers - a network of alliances between a corporation and venture capital firms - that will enable corporations to better anticipate future changes in dominant technologies. The rationale for the model is i) expanded screening of innovations to secure a competitive advantage for the corporation in the technological Race for the Future and ii) leveraging complementary resources of partners to create additional value through synergies. By developing alliances, corporations will secure sustainability of their competitive advantage and empower themselves by proactive pursuit of opportunities and new corporate development tools.

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03

ESADE MBA Business Review 2004

PARTICIPANTS, ABOUT ESADE BUSINESS SCHOOL, ESADE MBA AND THE TEAM

Participants of the ESADE MBA Business Review 2004

More than 400 MBA Students having 42 different nationalities and coming from 42 Business Schools spread across 5 continents and 17 countries participated in the ESADE MBA Business Review 2004.

AMERICAS

CANADA

John Molson School of Business
Concordia University
Faculty of Management
McGill University
Richard Ivey School of Business
Western Ontario

UNITERD STATES OF AMERICA

Anderson School of Management
UCLA
Carlson School of Management
University of Minnesota
Columbia Business School
Darden Graduate School of Business Administration
University of Virginia
F.W. School of Business
Babson College
Fuqua School of Business
Duke University
Goizueta Business School
Emory University
Kellogg School of Management
Northwestern University
Kenan-Flagler BS
University of North Carolina at Chapel Hill
Marshall School of Bussiness
University of Southern California
McCombs School of Business
The University of Texas at Austin
Rotman School of Management
University of Toronto
Stern School of Business
New York University
Weatherhead School of Management
Case Western Reserve University
Wharton School
University of Pennsylvania

CHILE

Universidad Adolfo Ibañez

COSTA RICA

INCAE

MEXICO

ITAM

EUROPE

FRANCE

ESCP-EAP
HEC School of Management

FINLAND

Helsinki School of Economics

	2003 EDITION	2004 EDITION
Teams	-	194
Participants	nearly 200	422
Nationalities	35	42
Business Schools	27	42
Business Schools countries	27	17

UNITED KINGDOM

Judge Institute of Management
Cambridge University

The University of Edinburgh Management School

Warwick Business School
University of Warwick

GERMANY

WHU-Koblenz

ITALY

SDA Bocconi

THE NETHERLANDS

Rotterdam School of Management
Erasmus University of Rotterdam

AFRICA

SOUTH AFRICA

Graduate School of Business
University of Cape Town

ASIA

INDIA

Indian Institute of Management Ahmedabad

Indian Institute of Management Bangalore

Indian Institute of Management Lucknow

National Institute of Ind. Engineering, Mumbai

SINGAPORE

National University of Singapore

Nanyang Business School

CHINA

Hong Kong University of Science & Technology

The Chinese University of Hong Kong

AUSTRALIA

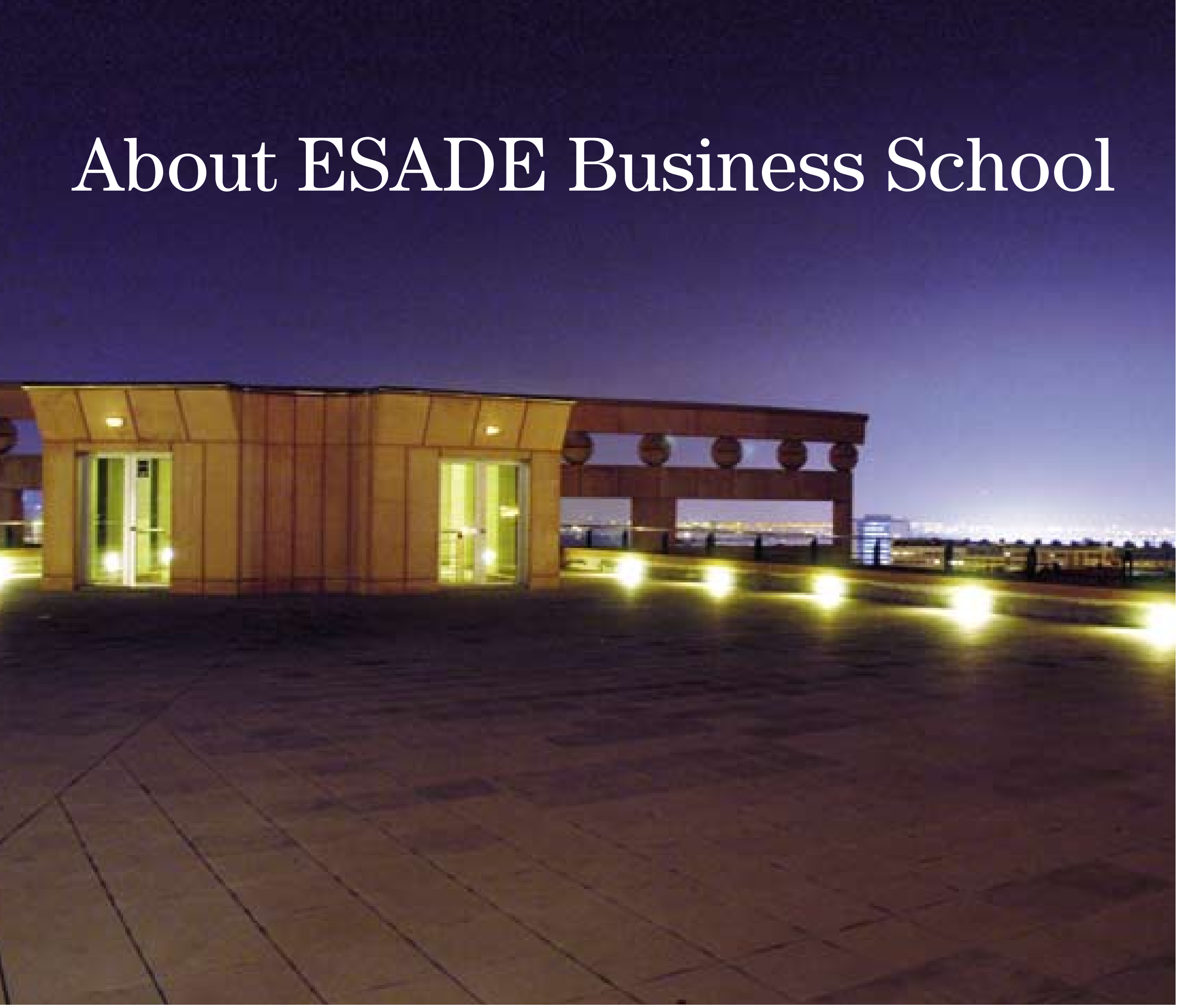
AUSTRALIA

Australian Graduate School of Management

Brisbane Graduate School of Management

Melbourne Business School
University of Melbourne

About ESADE Business School



ESADE is widely recognized to have one of Europe's most prestigious business schools. It features facilities in Barcelona and Madrid.
With over 40 years of experience, ESADE has always been a leader in the commitment to new management values, proving its ongoing willingness to adapt to the professiona world's needs. Comprehensive training of the individual and the development of management competencies are central elements of the ESADE Business School training proposal.

Its international outlook, the quality of all its programs, its faculty and its teaching methodologies have earned it the three prestigious international accreditations that constitute the so-called triple crown (AMBA, AACSB & EQUIS) with the sector's most renowned international bodies. The most relevant media sources give ESADE Business School a preferential ranking among international business schools.

A network of international relations has been and continues to be a fundamental buttress of ESADE Business School, wich maintains agreements for co-operation with over 100 universities and business schools over the five continents; a fact that has given way to the highest level of student, professor and information exchange.

One of the main values of ESADE's MBA Program is the cultural, academic and professional diversity of its participants. This diversity is undoubtedly one of the most exciting aspects of its open and international learning atmosphere, which fosters a continuous exchange of experiences.

The last batch at the ESADE MBA consists of 83% international students and, at the start of the program, had an average age of 28,3 years and an average of 5.1 years of work experience. For further information on ESADE, please visit www.esade.edu.

About ESADE MBA

Our MBA Full Time candidates are business professionals with an average of 5.1 years working experience who want to become a global business leaders. ¾ of the class are non-Spanish students, coming from Western Europe, Latin America, North America and Asia. One of the main values of the ESADE MBA is the cultural, academic and professional diversity of its participants from more than 30 different countries.

ESADE is the first European Business School to offer two Full Time tracks: 18-month and one-year programs.

The 18-month program is a bilingual program, an interactive international experience working with 115 1st year participants in Barcelona and the opportunity of 6 dual-degree programs in the second year.
The one-year program is an international English program, with Spanish language training, interactive, with participants coming from all over the world.

One of the main values of the ESADE MBA is the cultural, academic and professional diversity of its participants

The similarities of both programs
A diversity of students (geographic and background) are immersed in a rigorous and innovative first-year core program that stresses teamwork over competition. The program becomes flexible in year two with a choice of over 50 electives depending on the students professional track. Students are equipped to do business in English and Spanish.
The outstanding quality, internationality and involvement of our faculty
The LEAD team (teachers, coachers and facilitators) works with each participant to deliver a personalized method for assessing the knowledge and competencies relevant to management.
A Career Center with access to reliable and top-notch resources to conduct the job search at the newly launched Resource Center and a Career Service team to work closely with MBA participants to support in refining career goals and closely with companies to build the bridge between recruiters and participant professional aspirations.
Undivided support from our MBA Office staff.
Collaboration among students offering a cooperative environment, a hallmark at ESADE.

Business Week has published its prestigious ranking of the world's best MBA programmes, in which ESADE Business School appears for the first time, obtaining an excellent position: 4th in the international ranking and 1st in Spain (Business Week, October 2004).

This year's results include a ranking of the top 30 US business schools and a ranking of the top 10 non-US business schools.

Business Week positions ESADE as business school no. 1 according to the recruiters, thus consolidating the excellent perception that companies have of ESADE graduates. The recruiters stressed the capacity for leadership and the attitude of our MBAs, granting them the maximum score in the "best overall grads" variable.

The recruiters moreover give ESADE top marks in ethics and global vision, and place us as no. 1 in Marketing, Communication and Teamwork, and no. 2 in General Management and Finance.

TEAM

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Sergi Tomàs holds an M.Sc. in Mechanical Engineering from Tampere University of Technology (Finland) and a B.Sc in Industrial Engineering at Universitat Politècnica de Catalunya (Barcelona). He is currently a Full-Time MBA student (Class of 2005) at ESADE Business School. Prior to enrolling in the MBA, Sergi worked for over four years in the automotive industry in a number of locations throughout Europe. His most recent position was as a Project Team Leader at SEAT-Volkswagen in Barcelona.

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Daniel Haener graduated in Sports Science and Business Administration at the Federal Institute of Technology in Zurich, Switzerland. He is currently a Full-Time MBA student (Class of 2005) at ESADE Business School. His postgraduate career track includes sports marketing and management consulting. Daniel is also an entrepreneur who has managed his own business for several years.

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Darpan Sanghvi

Darpan Sanghvi is a Mechanical Engineer from India and is pursuing an MBA (class of 2004) conferred simultaneously by ESADE Business School, Barcelona and the McCombs School of Business, University of Texas at Austin. In 2003 he was selected as amongst the Top 7 Student Leaders of the World by the Graduate Business Foundation, USA. Specializing in marketing and strategy, Darpan has been an entrepreneur, has worked as Regional Head of Marketing (Pune) with one of India's most heavily funded dotcoms and has also consulted on positioning projects for top brands in the US & Australia.

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And finally, we would like to mention once again one of the most important elements of the ESADE MBA Business Review – the panel of experts, who analysed and judged the papers and then, based on their analysis, wrote the insightful articles that are found at the beginning of this journal. The panel of experts coordinated by Prof. Eugènia Bieto – Director of the ESADE Entrepreneurship Centre, comprised of the following Professors: Prof Laura Lamolla, Montserrat Ollé, Prof Alberto Gimeno, Carlos Daniel López, José Luís Marín, Pedro Parada and Marcel Planellas.

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