

Corporate Entrepreneurship and Innovation

Prepared by Dr. Ibrahim Siam

ENT628
Entrepreneurship

Lecture 9



Corporate Entrepreneurship and Innovation

Lecture 9

ENT628
Entrepreneurship

Prepared by
Dr. Ibrahim Siam

Chapter
13

Venture Teams And Intrapreneurs

CONTENTS

- Corporate venturing
- Intrapreneurs
- Facilitating intrapreneurship
- Handling internal politics
- Selecting a venture team
- Innovation departments or functions
- Innovation units or divisions
- Strategic 'fit'
- Deciding what to do with new ventures

Chapter
13

Venture Teams And Entrepreneurs

LEARNING OUTCOMES

- Understand and explain the role of the intrapreneur and venture teams in larger firms and how they might be encouraged and facilitated
- Understand and explain the character trials of intrapreneurs and how they might be developed
- Understand and explain the basis on which to select a venture team Critically assess your own preferred team role;
- Understand and explain how teams develop;
- Critically analyze the role of innovation departments, innovation units, and corporate accelerators and incubators;

Chapter
14

Product/ Market Development

CONTENTS

- Product/market expansion
- Diffusion of innovation
- Developing existing products and markets
- Finding new markets
- Diversification
- External corporate venturing
- Acquisitions and industry life-cycles
- Reasons for corporate acquisitions
- Risk and corporate venturing

Chapter
13

Venture Teams And Entrepreneurs

LEARNING OUTCOMES

- Understand and explain how internal and external corporate venturing impacts on product/ market development and how risk might be mitigated through continuous, incremental diversification
- Critically analyze the role of corporate acquisitions in the context of innovation and product/ market development
- Understand and explain why some corporate acquisitions succeed and others fail
- Understand and explain how diversification is central to the process of corporate evolution can how it can add shareholder value
- Use Porter's Five Forces analysis to assess the competitiveness of an industry

Corporate ventures

- **Corporate ventures can be viewed simply as a series of tools or techniques that can help bring about entrepreneurial outcomes.**
- They help generate and maintain strategic renewal. Some of these tools and techniques relate to how the organization structures and manages itself internally (called internal corporate venturing) whilst others relate to how it structures itself externally (called external corporate venturing).
- **An entrepreneurial architecture encourages and facilitates the development and use of these tools and techniques.**



Corporate ventures

Internal corporate venturing

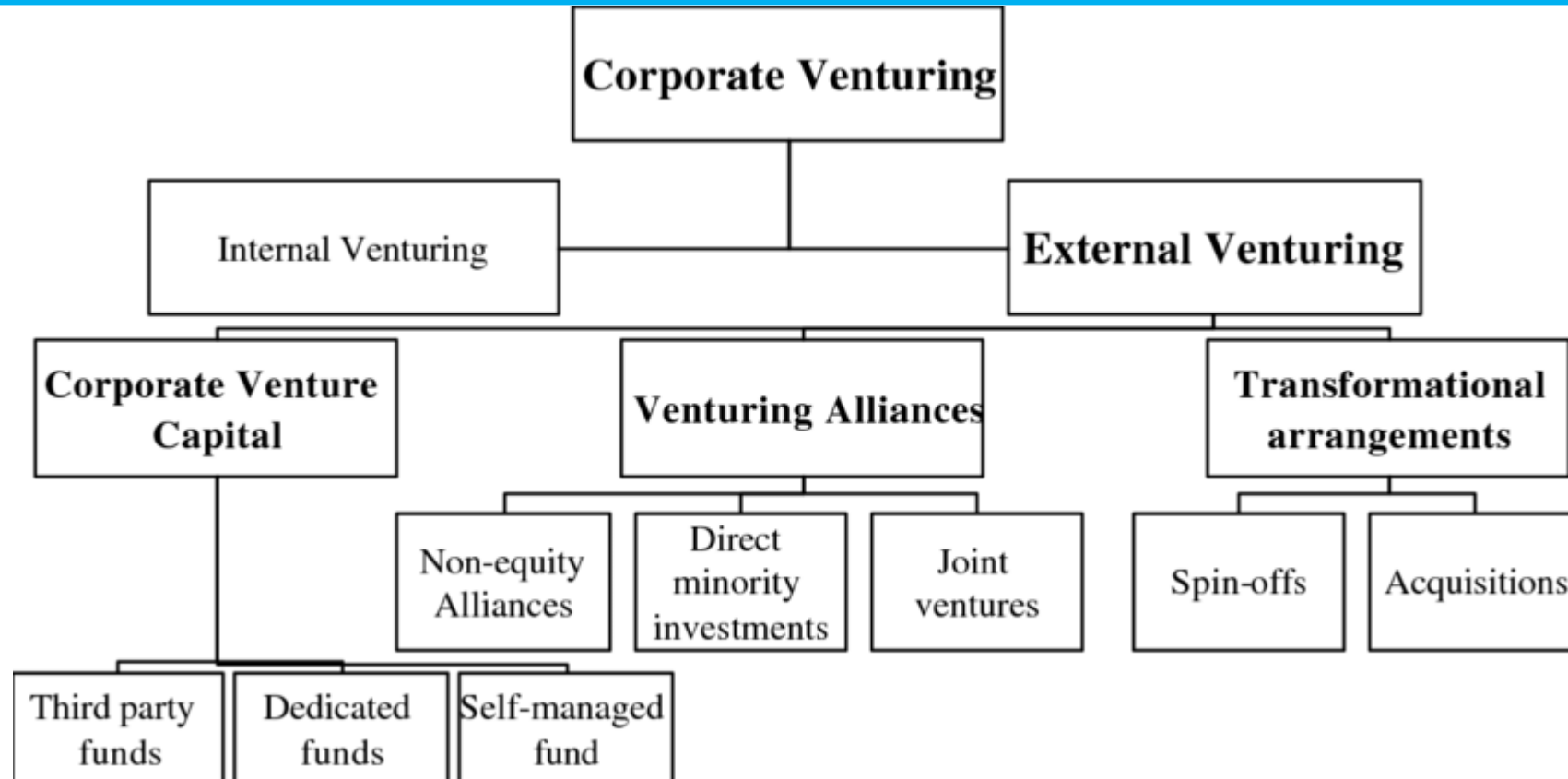
- concerned with how the organization encourages and manages innovative, entrepreneurial projects - how it encourages new businesses to develop internally whilst aligning them to the company's existing activities.
- Internal corporate venturing might be undertaken by an individual -who is known as an intrapreneur.
- More often it is now undertaken by a team, often called a venture team. One reason for this, particularly in tech firms, is the importance of cognitive diversity to facilitate the recombination of skills and ideas from different areas.
- Team formed for a specific project from staff with different skills from different departments.

Corporate ventures

External corporate venturing

- concerned with **how the organization structures itself externally** to encourage innovation and develop new business areas.
- This may be **through partnerships, strategic alliances and joint ventures**, It may also be through investments and acquisitions in strategically important smaller firms and the corporate venturing units needed to undertake this role.

Corporate ventures



INTRAPRENEURS

The term intrapreneur is generally used to describe the individual charged with pushing through innovations within a larger organization, in an entrepreneurial fashion -a salaried 'entrepreneur' in a big company that they do not own.

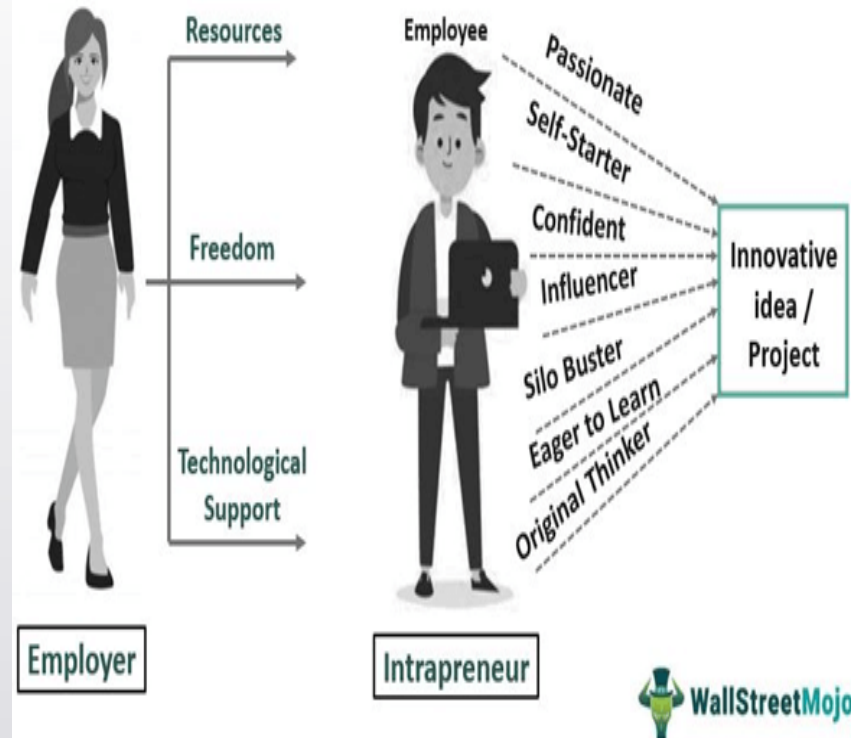
Successful intrapreneurs share many of the character traits of entrepreneurs a need for achievement, a need for autonomy, drive, and determination, a high internal locus of control, creativity, and innovativeness, and an ability to live with risk and uncertainty.

Although they have a desire for autonomy and a willingness to live with risk and uncertainty, this does not translate into a desire to be completely independent and set up their own business - they are probably too risk-averse.

INTRAPRENEURS

What is the difference?

	Intrapreneurship	Entrepreneurship
	Works for a company	Self-employed
	Less personal risk	More personal risk
	Less job autonomy	More control and autonomy
	Goal: Company growth and employee wellness	Goal: Independent wealth



Identifying Core Competencies

Competencies are the glue that binds existing businesses. They are also the engine for new business development: They suggested that there were three tests that can be applied to identify core competencies:

1. They should provide potential access to a wide variety of markets rather than generating competitive advantage only in one.
2. They should make 'a significant contribution to the perceived customer benefits of the end-product' -they add value.³
3. They should be difficult for competitors to copy. Products are easier to copy than processes and, as this book outlines, an entrepreneurial architecture should be particularly difficult to copy.

Identifying Core Competencies

The best intrapreneurs are ambitious, rational, competitive and questioning. They dislike bureaucracy and are challenged by innovation, but they have an understanding of their organization and a belief in their colleagues. Unlike many entrepreneurs, they need to be adept at politics and good at resolving conflict as they navigate their way through the blocks and blockers in other operational units in their organization .

Intrapreneurs and venture teams need to be aligned around one important goal - a specific, measurable achievement within a specific time frame

Facilitating Intrapreneurship

Intrapreneurs and venture teams should thrive within an organization with an entrepreneurial architecture - an architecture created and nurtured by the leader of the organization. However, for an intrapreneurial project to succeed it needs a number of other facilitating elements:

- **An intrapreneurial team - The team needs to have the necessary skills, knowledge, and competencies to undertake the project.** It also needs to have appropriate team skills -the team needs to have an intrapreneurial culture, that develops visions, goals, and action plans; takes action and rewards action; encourages suggesting, trying and experimenting; encourages creating and developing regardless of the area; and encourages the taking of responsibility and ownership.

Facilitating Intrapreneurship

- **High-level sponsor** - the intrapreneur and their team may need to be shielded in some way and made to feel that they are different and protected. Every project needs a high-level sponsor with sufficient authority both to protect them when times are difficult or vested interests are upset and to help them unblock the blockages to change as they occur. The sponsor should help secure resources, provide advice and contacts, and help give them the organizational freedom they need.

Facilitating Intrapreneurship

- **Resources - Resources** of all kinds are needed for any project - particularly in terms of time and freedom or slack from day-to-day responsibilities. Other resources may include money, materials and access to information, knowledge and skills that other managers may be guarding jealously. The high-level sponsor may need to facilitate cross-departmental transfers of staff to provide the team with the necessary skills to undertake the project as well as press departments to provide information to the project team.
- **Tolerance of uncertainty and risk-taking** -The team need to believe that they can take risks in pushing through the project without any fear of penalties. These risks may relate not only to the success or failure of the project but also to potential damage to interpersonal relationships if the team is perceived as circumventing the authority of certain managers.

Handling Internal Politics

Intrapreneurs face many blocks and blockers -some internal, others external. They need to navigate the internal politics of the organization from the very start and that can sometimes be the most difficult part of getting a new product or service to market.

success depends critically upon viewing the political challenge as part of the project from the very start and engaging with it: '[Intrapreneurs] apply a wide variety of political influence actions to help move the organization.

They actively engage people across their organization. They position the product and the project in the context of the organization in a way that others could see the value and benefits. The ability to influence individuals in these groups depends upon the character and track record of the intrapreneur and their team.

Selecting A Venture Team

Team working is commonplace now across most businesses and is particularly valuable in pushing through innovations. A single intrapreneur on their own rarely has all the skills required to see a project through to completion.

In order to be successful, the team needs to have:

1. **The skills**, knowledge and competencies to undertake the project, probably from a wide range of different disciplines such as computer programming, engineering, marketing, or finance.
2. **A balance between creativity and project execution** is necessary and has direct implications on the project's outcome.
3. **Complementary personal characteristics** so that their 'team roles' complement each other's. The team needs to build trust and this can be helped if the team has prior experience working together.

Innovation Departments Or Functions

- An innovation department is a permanent organizational structure set up for the purpose of originating and/or developing innovations.
- These innovative ideas might originate from within the department or from other sources, including intrapreneurs.
- The department then needs the resources to develop the idea. Innovation may also simply be a function within a department - for example, an innovation function might be located within the marketing department of a company.

Innovation Departments Or Functions

There are a number of issues with innovation departments or functions:

- They may find it difficult to think 'outside the box' in searching for innovative ideas because they share the same 'dominant logic' with the rest of the organization but are likely to have narrower horizons. Indeed, rather than allowing skills and competencies across the organization to be leveraged, they may cause them to be compartmentalized. If the innovation function is part of the production department, the innovations are likely to relate to production. If it is part of the marketing department they are likely to relate to marketing.



Innovation Departments Or Functions

- They may not have the skills and capabilities to take a promising idea forward, despite it being in some way strategically important to the future of the organization. **New ideas may need resources and investment beyond the normal budget of a department or function within a department.** In these circumstances, the intervention of top management may be required to provide the resources and degree of organizational separation and/or support needed by the department.
- They may be unduly susceptible to political in-fighting because of the seniority (or otherwise) of its managers and, even if it has an entrepreneurial architecture itself, it may face a hostile architecture elsewhere in the organization.
- **they have limited skills, knowledge and competencies compared to an ad hoc team drawn from across an organization.**

Innovation Units Or Divisions

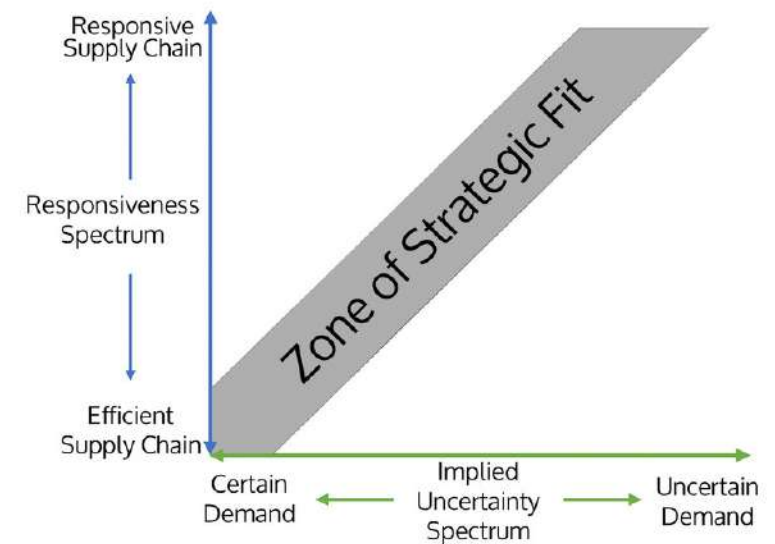
- What is really needed for large organizations that are seeking to encourage both incremental and radical innovation, particularly through the intrapreneurial teams is an organizational capability that is more flexible, has more resources, and greater perceived and real authority within the organization.
- **Many of the most innovative companies have therefore set up separate innovation units or divisions, often in a separate location, reporting directly to the CEO.**
- **radical innovations are best placed in separate locations, led by a high-level manager with greater autonomy and free from the bureaucracy of the main organization**

We should never underestimate the ability of large corporations with dominant market positions to ignore internal developments. They might have the funds to invest in R&D on the one hand, but on the other, their existing products/markets might dominate their attention. If an innovation should potentially threaten that market position.

Once the flow of innovative ideas has started, the question will arise as to what to do with them. The two factors that influence how an incremental or a radical product /service innovation is handled by an organization are operational relatedness and strategic importance.

- Operational relatedness refers to how close the innovation is to the existing product /service portfolio and its market footprint, reflecting the core skills, competencies and capabilities of the organization. This is not necessarily related simply to a company's own industry.
- Strategic importance refers to how important innovation is to the future development of the organization. There could be many reasons for this, but one factor is the current strategic orientation of the organization and the business model it adopts in meeting the needs of customers. This might also provide some insights into its capabilities and competencies that underpin its business models (e.g. product quality, process efficiency or cost and customer focus

What is Strategic Fit?



Product/ Market Expansion

Innovation involves moving into new products and /or new markets and the risks involved increase the further the firm moves from its core competencies.

Companies will follow combinations of these routes as they grow, through both internal and external developments

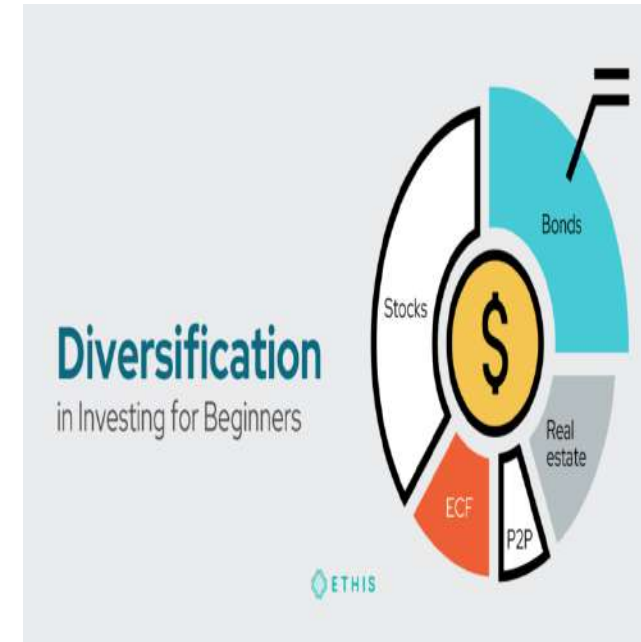
New Product	Product development	Diversification
Existing product	Market penetration	Market development
	Existing Market	New Market

Product/ Market Expansion

- **Market development** is most successful for companies whose core competencies lie in the efficiency of their existing production methods, for example in the capital goods industries, and are seeking economies of scale, or for firms adept at sales, marketing, and developing close customer relationships. One way of lowering the risks associated with finding new markets is through strategic alliances/partnerships and joint ventures.
- **Product and process development** is most successful for those companies whose competencies lie in building good customer relationships, often associated with effective branding. However, of equal importance could be the ability to innovate. Again, one way of lowering the risks associated with product innovation is through the formation of strategic alliances/partnerships and joint ventures.

Product/ Market Expansion

- **Diversification** - introducing new products into new markets - is a high-risk strategy for most companies. This is why, in the previous chapter, it was said that this sort of development should either be spun off and sold or set up as SBUs until a final decision about strategic importance is made. This can be likened to radical or disruptive innovation that might create a new-to-the-world industry. Whilst some firms might see these innovations coming from within, frequently they pursue this growth option through a strategy of acquisition.



The New Venture Creation Framework

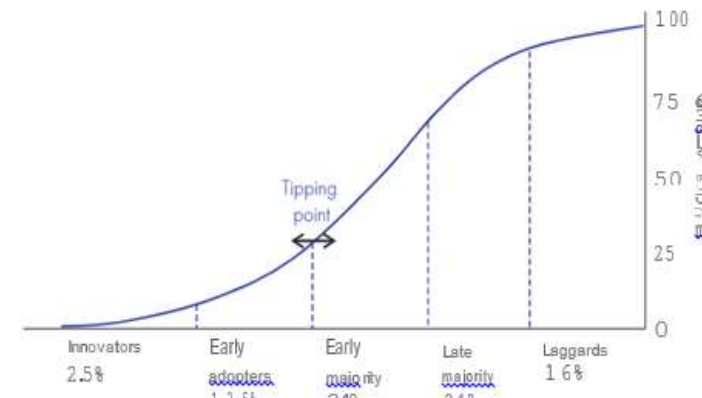
- Market penetration can take time. Some customers may even be adopting an innovation for the first time at the end of its commercial life. The diffusion of innovation takes time as different types of customers adopt it at different stages of its life cycle.
- Rogers (2003) argued that the adoption of innovations by consumers follows channels of communication within society and is not steady.
- He classified customers into five groups:

The New Venture Creation Framework

- **Innovators** (estimated at 2.5 percent) -These are risk-takers, typically with high social and financial status, who are interested and understand the innovation and are willing to experiment.
- **Early adopters** (estimated at 13.5 percent) - These are opinion leaders, typically again with high social and financial status, who are sufficiently well connected and educated to learn about and understand the benefits of the innovation. It is important for any innovation to impact favorably on this group.
- **Early majority** (estimated at 34 percent) -These form the majority of customers with average social and financial status. They have contact with early adopters and are likely to be influenced by them.

The New Venture Creation Framework

- **Late majority** (estimated at 34 percent) - These adopt the innovation after the average person, approaching any innovation with scepticism. Typically, they have below-average social and financial status.
- **Laggards** (estimated at 16 percent) - These are the last to adopt an innovation. They are traditionalists who dislike change. Typically, they are older, with limited contacts outside their close network and also have below-average social and financial status.



Developing Existing Products And Markets

Innovation is not just about finding entirely new products/market offerings. Existing products and markets can be adjusted innovatively so that their life is extended or their market expanded.

These innovations can start at the growth phase of the life cycle by expanding the product offering and meeting the needs of selected market segments so as to counter the threat of competition.

Expanding the offering means developing product variations.
(EX: A soft drink manufacturer might start to offer sugar-free variants or new flavors.)



Developing Existing Products And Markets

At the same time, the company might want to try to find new distribution channels so that more customers gain exposure to the product. Sometimes they move from a selective distribution network to a more intensive network. Associated with this is a more aggressive promotion and pricing strategy that encourages further market penetration ahead of the rapidly emerging competition. Building the brand is important and this will be a vital part of the advertising message.

Developing Existing Products And Markets

Another technique is called product extension whereby a successful brands extended to similar but different products that might be purchased by the same customers. In this way a number of chocolate bar manufacturers have successfully extended their brand into ice cream. The key to success here is having a strong brand, one that actually means something to customers, and with values that can be extended onto the other products.

Finding New Markets

- Increasing numbers of businesses now sell their products internationally from day one. Selling to a very small target or niche market in one country can raise issues of viability. Selling to the same niche market globally can dramatically change the equation and offer the opportunity of high profits, because of economies of scale (also important if the product is perceived as a commodity and cost leadership is dependent upon achieving them).
- The internet has made it easier to sell internationally, particularly for virtual products that can be transmitted on the internet (e.g., music or apps). Physical products can use global internet retail platforms like Amazon or eBay to sell their product, take payment by credit card and use distribution networks like FedEx.

DIVERSIFICATION

Diversification involves moving from core areas of activity into completely new and untreated product and market areas

- Unrelated diversification happens when the firm develops beyond its present 'industry' or 'sector' into new products/services and markets that, on the face of it, bear little relationship to the one it is in. Whether arising from internal development or acquisition, there is little or no operational relatedness with the innovation.
- Related diversification - Related diversification is when development (or acquisition) is beyond the present product and market, but within the confines of the industry or sector in which the firm operates. In these circumstances, there is likely to be some operational relatedness that offers the opportunity for economies of scale, scope (synergy) or the expansion or extension of the firm's existing product range - in other words, there is some added benefit from the move.

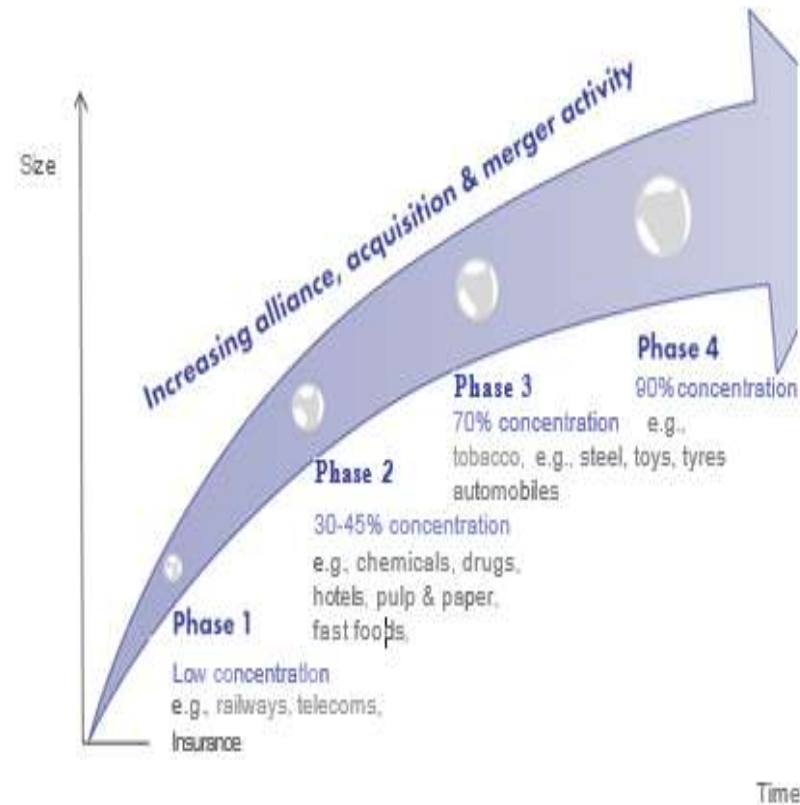
Acquisitions And Industry Life-cycles

The risks are said to be high because the firm understands neither the product /service nor the market the innovation is to be sold into and therefore might overvalue it and not understand how to deploy it. The further the company strays from its core competencies, the higher the risks because of problems with implementation, particularly when this is coupled with an implementation strategy involving the acquisition.

Companies that pursue a strategy of diversification over time end up with a number of units or subsidiaries operating in different product /market sectors. Called conglomerates,

Acquisitions And Industry Life-cycles

- there is increasing acquisition and merger activity as industries mature and this leads to increased industry concentration.
- industry typically has four distinct phases and the main factor determining corporate survival and success is the speed with which the company actively moves toward the final phase - the endgame curve - through a series of mergers and acquisitions



Acquisitions And Industry Life-cycles

Phase 1 In this phase, there is heavy competition from start-ups, spin-offs, firms in deregulated industries and smaller companies. As a result, there is low market concentration - less than 20 per cent, measured by the combined market share of the three biggest companies. This phase typically lasts at least five years.

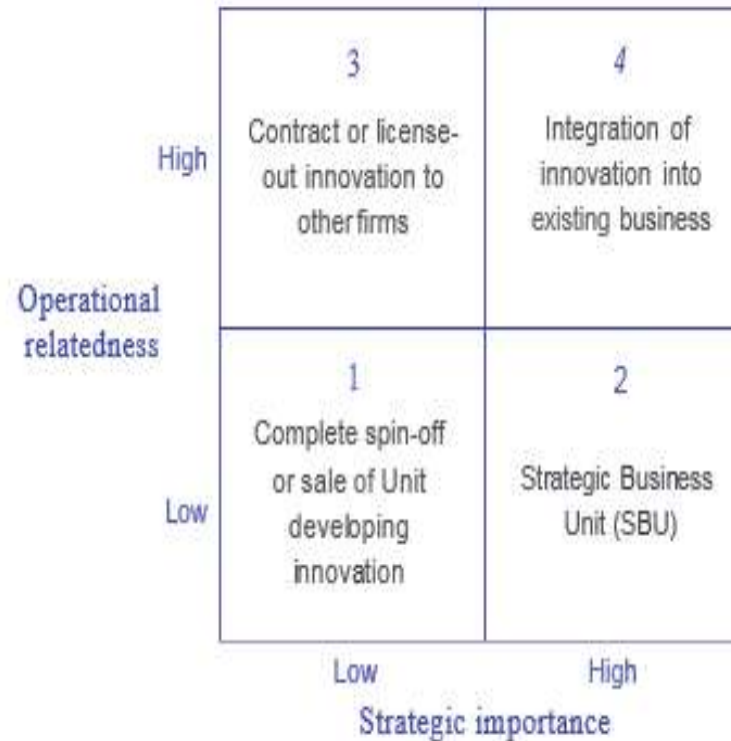
Phase 2 The authors called this the 'scale phase' because size begins to matter. Corporate acquisitions increase and leading companies start to merge. Concentration increases to 30-45 per cent.

Phase 3 In this phase, companies extend their core business, eliminating secondary operations or exchanging them with other firms for assets closer to their core business. Concentration increases to almost 70 per cent.

Phase 4 This final phase sees concentration reaching 90 per cent and large companies forming alliances in order to boost growth

Reasons For Corporate Acquisitions

The strategic acquisition of small firms by larger ones is probably the most visible form of external corporate venturing. It can also be a powerful accelerator of growth.



Corporate-level Strategic Review

Box 1 Existing product(s) and market(s) –

Market dominance provides organizations with the opportunity to charge oligopoly prices and the acquisition of competitors may have a role to play in this, albeit at the price of acquiring the competitor. The company purchases a customer base and eliminates a competitor at the same time. We see this sort of acquisition activity in newly emerging markets where no clear dominant brands have yet been established.

Box 2 Introducing existing product(s) into new market(s) –

The purchase of another firm may be a way of buying market share - buying into a new market, possibly in another country. Once more, the aim is to achieve global market dominance quickly by buying from competitors in foreign markets. The purchase might also help gain economies of scale where this is important - for example, with technology and internet-based businesses that face high fixed costs in development and low variable costs in selling their product or service. There might also be economies of scope or synergy

Box 3 Introducing new product(s) into existing market(s) –

Any acquisition of another business with new products or technologies will involve finding markets for the innovations. One important motive in the purchase will be that the product is attractive to existing customers. It could be that these products replace existing ones, but it could also be the case that they offer the opportunity for product expansion (product variations that meet the needs of different market segments) and/or product extension (where a successful brand is extended to similar but different products).



Thank You