

Corporate Entrepreneurship and Innovation

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ENT628
Entrepreneurship

Lecture 1



Chapter

01

Introduction: Entrepreneurship- thriving in chaos

LEARNING OUTCOMES

Critically analyze the impact of the rapidly changing environment and global connectivity on larger companies;

Explain the role and importance of entrepreneurship in modern society and, in particular, its link with innovation; Critically analyze the problems Large firms have in coping with this and the advantages enjoyed by small, more entrepreneurial firms.



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Introduction: Entrepreneurship- thriving in chaos

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- The challenge of entrepreneurship
- Can big companies survive
- Implications for big companies
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- Complexity theory and managing in chaos

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The new age of change and uncertainty

- The pace of change has accelerated, making it increasingly difficult to predict and manage.
- The idea that change has become endemic, continuous, and, above all, unpredictable, sometimes resulting in discontinuous or revolt shifts that can create chaos, has powerful implications for us all, but it is nothing new. Change -continuous and unpredictable, often turbulent and disruptive.
- Alongside this, we have seen unprecedented volatility in just about every market, from commodities to exchange rates, from stock markets to bond markets.

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The new age of change and uncertainty

- Corporate scandals have dominated the headlines. Many internet giants stand accused of avoiding or at least evading tax and using tax havens to hoard cash. Companies like Alphabet (owners of Google and YouTube), Apple, Facebook and Amazon have been accused of stifling competition and wielding excessive monopoly power because they are able to dominate markets.
- The European Commission fined Google €2.4 billion in 2017 for abusing its market dominance as a search engine by giving illegal advantage to its own comparison shopping service, Google Shopping, whilst demoting the results of rival sites.

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The new age of change and uncertainty

- Underpinning this volatility is the development of globalization and global connectivity an increasingly complex world full of interconnections formed by a truly global marketplace linked by new technologies that allow instant communication with almost anywhere.

The Role of new social media

- We all know what others are doing - instantly. **Social media is replacing mass media as the most effective means of communicate.**
- **This new globalization has meant that no business is safe from the chill winds of competition, a wind that is unforgiving of frailty and no respecter of past reputations.**

The new age of change and uncertainty

- Commercial opportunities remain, but **competition is now as much about survival as growth**. There may be ample opportunities but they only go to those who can spot them first, are swift to adapt and are open and willing to change. Sometimes these opportunities break down established industry barriers and create new and unexpected sources of competition.
- **The internet has caused disruption, generating as many threats as opportunities.** It has led to an enormous growth in home shopping and deliveries and caused many high street retailers to radically reappraise their customer of tearing's. reputations. It will probably lead to high streets looking very different in the future

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The new age of change and uncertainty

- To be the only really sustainable source of competitive advantage. At the same time as seeking new sources of competitive advantage, companies must continue to manage existing businesses. They must find ways of managing to achieve cost efficiencies whilst at the same time differentiating themselves from the competition. They must find ways to innovate at the same time as managing products at the mature stage of their life -cycle.
- **Multinationals must find ways of understanding and reconciling customer needs in different countries**, of reconciling global integration with local differentiation. And, despite their size, they must respond to changes in these needs quickly, just as they must react quickly to the actions of competitors.

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The new age of change and uncertainty

Where is all this leading?

The advances in artificial intelligence and the trend towards more and more automation could lead to mass unemployment and wage stagnation.

How will established, larger businesses respond?

In the early part of the twentieth century they brought about wealth and prosperity for all, pioneering mass production and mass markets but have they lost their way in the twenty-first century?

They seem not to be responding well to the needs of either the market or society, catering instead to the idea of ever-increasing shareholder value - and many question whether they are doing this effectively

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The Challenge Of Entrepreneurship

- One response to these winds of change is a realization that security of employment is a thing of the past. Increasing numbers of people see self-employment as one way of regaining control of their lives - and there is no shortage of entrepreneurial role models.
- whilst the chances of success on a global basis have probably never been higher and the costs of start-up low, most start-ups struggle to provide even a living wage for the founder. Many of the mushrooming number of 'gig workers; legally defined (in most countries) as self-employed, are tied to one larger firm.

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The Challenge Of Entrepreneurship

They are employed in low-earning jobs, some times earning below the statutory minimum wage and usually without any form of employment rights or protection. Based more on hope than realistic expectation, the reality is that **most start-ups are born to stagnate and die, rather than to become the large corporations of the future.**

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The Challenge Of Entrepreneurship

Jack Ma and Alibaba

THE
LUXURY
CLOSET

شركة The Luxury
Closet



كريم Kareem



شبكة يوتيرن

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The Challenge Of Entrepreneurship

- Entrepreneurs have finally been recognized as a vital part of economic wealth generation. They have become the heroes of the business world, embodying ephemeral qualities that are envied by many people - freedom of spirit, creativity, vision and zeal. They have the courage, self-belief and commitment to turn dreams into realities.
- They are seen as catalysts for economic, and sometimes social, change. They disrupt industries through increased competition and change the way we are through innovation. Start-ups and entrepreneurial innovation also remain fundamental to the economic well-being of existing businesses

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CAN BIG COMPANIES SURVIVE?

- **Big companies increasingly find it difficult to deal with this new age of uncertainty and super-competition.**
- Start-ups and smaller ventures seem to find opportunities in the changes that these larger, more established firms find threatening. They react by innovating to better meet customer needs.
- The success of large companies forces them to focus on the parts of the business that generate the biggest profit, emphasizing efficiency, and neglecting the newer parts and potential innovations. The companies become more bureaucratic, dominated by notions of economies of scale: 'It is no accident that when you become a massive company your R&D [research and development] is a tiny part of the enterprise.'

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CAN BIG COMPANIES SURVIVE?

- Greiner {1972) popularized the idea with his model of growth stages. In the model, each phase of growth is followed by a crisis that necessitates a change in the way the founder manages the business. If the crisis cannot be overcome, then the business risks failure. The length of time it takes to go through each phase depends on the industry in which the company operates.
- In fast-growing industries, the growth periods are relatively short; in slower-growth industries, they tend to be longer. Each evolutionary phase requires a particular management style or emphasis to achieve growth. Greiner's model predicts four crises: leadership, autonomy, control, and finally bureaucracy.

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CAN BIG COMPANIES SURVIVE?

- Firstly, the same degree of bureaucracy {or lack of it} may not be appropriate for all firms - indeed, even for the divisions and departments within them. At the same time not all firms {or the divisions and departments within them} may require or be able to innovate to the same extent. The issue is how to organize and manage to achieve the differences.
- Secondly, whilst accepting that companies, might have a natural life span, they may also, have spawned new offspring during that time - new ventures that have spun out of the old, all part of the never-ending cycle of birth and death. This is also an important issue that we shall return to later.

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CAN BIG COMPANIES SURVIVE?

- the notion that firms become less entrepreneurial and more bureaucratic as they grow is far from new.
- Whilst few experts would dispute the need to avoid too much bureaucracy and the importance of continuous innovation.
- So, to answer the question that was asked earlier, big companies can certainly extend their lives - **but only by innovation**. And whilst many will die - going into administration or, more likely, being taken over by another big company - the most successful will probably **morph into some other form**.

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Implications For Big Companies

- The winds of change have caused a reappraisal of how shareholder value is maximized. The ability to innovate is highly valued and the speed of response to changing market needs is seen as essential.
- Alongside this realization, the focus has shifted from existing and past value to future value.
- Existing market share is valuable, but future market share, particularly of a new or emergent market, can be of more value -just look at the valuations put on some of the IPOs {initial public offerings} of internet businesses with little or no current revenue.

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Implications For Big Companies

- **We have moved from an industrial economy to a knowledge economy, driven by new digital technologies.** There has been an accompanying shift in sources of shareholder value - from being vested in physical assets that can be purchased and restrict flexibility, to virtual assets that can be built up and can increase flexibility.
- **Data and information on customers have become as valuable as the customers themselves** - something that can not only be sold but also used to create a competitive advantage.

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Implications For Big Companies

- There is an increased focus on risk minimization and a realization that companies need to maximize their flexibility if they are to survive in this new, unpredictable age.
- Flexibility increases shareholder value.
- Strategic options are valuable when you face either an unexpected downturn or upturn, even at the expense of short-term profits.
- high liquidity and good cash flow are needed to make the most of these options.

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Implications For Big Companies

- These issues all have implications, not only for how strategy is developed but also for deciding which sectors are attractive. They underline the need to continually question the basis for a firm's sustainable competitive advantage. As we have seen, in the modern economy, data can be more valuable than sales.
- In a super-competitive, global market economies of scope (when less of a resource is used because it is spread over multiple activities) can be more valuable than the economics of scale, particularly when linked to a well-known brand, such as Apple or Virgin, that can be extended over a range of products or services.

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Implications For Big Companies

- Finally, issues of **corporate social responsibility (CSR)** and environmental sustainability have also increasingly come to influence shareholder value - for both ethical and commercial reasons. Just as they have become increasingly the focus for governments, they have also moved into the mainstream of strategy development for companies.
- CSR stock market indices have been developed and there is increasing pressure from customers, shareholders, and governments for business leaders to develop and implement CSR and environmental policies. Brands can be damaged by unethical actions or a lack of social responsibility.

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Implications For Big Companies

- The growing importance of CSR is also reflected in the development of sustainability and CSR-related stock market indices, which allow investors to identify and evaluate companies according to their environmental, social, and governance practices. At the same time, customers, shareholders, employees, regulators, and other stakeholders are placing greater pressure on businesses to adopt transparent and responsible policies. Effective CSR and environmental strategies can strengthen corporate reputation, build customer trust, reduce operational and regulatory risks, and support long-term shareholder value. In contrast, unethical business practices, environmental damage, or a failure to meet social responsibilities can negatively affect a company's reputation, customer loyalty, investor confidence, and overall financial performance.

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Implications For Big Companies

- This new age of uncertainty has powerful implications for all organizations and their managers and leaders. Planning for super-competition becomes problematic if you cannot predict the future and strategic management faces completely new challenges as the linear planning models used for decades, based on knowledge and information of the past, seem increasingly unrealistic

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Implications For Big Companies

- Centralized control seems unable to cope with the scale and pace of change and the uncertainty, complexity, and ambiguity associated with it - despite technology's improvements in communication. What is needed is a new approach that can handle complexity and uncertainty, one that 'learns by doing; combining the speed of reaction with knowledge gathering and rapid learning from mistakes.

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Implications For Big Companies

- Traditional views of leadership as a command and control function seem increasingly to be obsolete as people show they also have power. Despite cultural diversity, these days 'nudge and influence' seems to be a far more effective form of leadership, at least in the West. In an increasingly affluent society, people are no longer motivated just by money.
- They are also more willing to question why they are undertaking certain tasks. Indeed, this is no bad thing in a commercial environment where creativity and innovation are such valuable resources. The questioning just needs to be channeled in the right direction.

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The Entrepreneurial Mindset

Entrepreneurial character traits

- It is this entrepreneurial view of change that managers in large companies need to embrace and in doing so there are some lessons to be learned from entrepreneurs and how they approach the task of management. Underpinning how entrepreneurs approach a business is their mindset- their character traits and their approach to making decisions in a risky, uncertain environment.
- **Entrepreneurs may be born with some of these traits, but they are also formed through their life experiences** - family background, education, job experience, culture, etc. This is important, as it shows that these traits can be influenced by the work environment.

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The Entrepreneurial Mindset

Need for autonomy and independence

- **Entrepreneurs have a high need for autonomy and independence** - a characteristic you may initially think is incompatible with a manager in a large firm. But you would be wrong. Independence means different things to different people: doing things differently, being in a situation where you can fulfill your potential or control your own destiny.
- And, whilst this may not seem to be a character trait that is easily transitioned into an organizational characteristic, the autonomy of action can be a strong motivator when combined with other management tools

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Internal locus of control

Entrepreneurs have a high internal locus of control - a belief that they control their own destiny. They may believe in luck, but not fate. They believe that they can create their own destiny. This is underpinned by a high level of 'self-efficacy' - self-confidence (possibly unfounded) in their ability to complete a task successfully - which can lead to over-optimism in decision-making.

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The Entrepreneurial Mindset

Drive and determination

Entrepreneurs have enormous drive and determination, motivated by their need for achievement and underpinned by an internal locus of control, which gives them self-confidence in their ability to complete the task successfully. These three personality dimensions appear prominently in the academic literature. Because of their drive, entrepreneurs are proactive rather than reactive and appear more decisive. They act quickly.

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The Entrepreneurial Mindset

Creativity, innovation, and opportunism

The ability to be creative and innovative is an important attribute of entrepreneurs, particularly in growth businesses. But creativity can mean different things in different contexts. For entrepreneurs, creativity is focused on commercial opportunities.

They spot an opportunity and then use creativity and innovation to exploit it. They tend to do things differently. It is this trait - a willingness to search out or create new economic opportunities - that distinguishes innovative entrepreneurs from the larger population of self-employed

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The Entrepreneurial Mindset

Acceptance of risk and uncertainty

- Entrepreneurs are willing to take risks and live with uncertainty - things that can be very stressful for most people. However, this does not mean entrepreneurs are gamblers.
- They do not like risk and they will try to avoid or mitigate the risks they face and insure against them using distinctive approaches that we shall outline in the next section. Most importantly, they are willing to make decisions based upon incomplete information - a characteristic based upon their faith that they can influence the outcome (real or otherwise) because of their high self-efficacy and internal locus of control.

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Entrepreneurial management and leadership

- There is strong empirical support for the view that strong competitive advantage and above-average financial performance stem from high levels of entrepreneurship
- So what can we learn from how entrepreneurs manage their businesses, in particular how they manage risk and develop strategy? Entrepreneurs are often seen as being intuitive, almost whimsical, in their decision-making.
- A result is a different approach to managing, developing strategy and making decisions that is just as logical but little understood.

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Complexity Theory And Managing In Chaos

- It is this capacity to self-organize, to create new structures and systems, and to make appropriate independent decisions rapidly that can give direction to the changes and create competitive advantages. The question, therefore, is how to create an environment that encourages

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Complexity Theory And Managing In Chaos

- Complexity theory also gives us an intellectual basis for the apparent dilemma of whether to encourage incremental or radical change within an entrepreneurial organization.
- The theory tells us that the two are not mutually exclusive and shows that systems most likely to thrive in a turbulent environment are those that have the capability of making both small-scale adaptations as well as large-scale revolutions. These systems exist at the 'edge of chaos: adapting all the time but able to make the occasional radical leap.

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Complexity Theory And Managing In Chaos

self-organization, with systems, structures and leadership that facilitate it. Complexity theory shows that there are three requirements to create effective self-organization:

- **A common identity and purpose:** There must be a clear understanding of and belief in the 'common good' (head and heart) that permits a common sense-making process within the organization;
- **A free flow of knowledge and information:** The organization as a whole must work on the same information in order to provide the possibility of synchronized behavior;
- **Strong personal relationships:** These relationships are the pathways through which information is transmitted and then transformed into an intelligent, coordinated action

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SUMMARY

- We are living in an age of **uncertainty characterized** by continuing, unpredictable and rapid change that is both incremental, radical, and discontinuous. It is an increasingly complex world full of interconnections formed by a global marketplace linked by technology allowing instant communication and amplifying much of the volatility in it. And commercial power is shifting from West to East.

SUMMARY

- Many larger firms are unable to cope with this **volatility and increased competition**. At the same time, those that are have been accused of exploiting their dominant market position to stifle competition; some have been accused of avoiding tax; others of using customer data unscrupulously. Many are accused of not doing enough to ensure environmental sustainability. These are issues that raise questions about their commitment to CSR
- The entrepreneurial character has six traits: a high need for autonomy and independence; a high need for achievement; a high internal locus of control; a high level of drive and determination; high creativity and innovation; and a willingness to work in uncertain environments and take measured risks

SUMMARY

- Entrepreneurial management is characterized as being a social activity that has a different approach to dealing with risk and uncertainty. Successful entrepreneurs generate strong relationships with all their stakeholders. They create a strong group identity and sense of purpose. They exert 'soft' influence with loose control structures
- As firms grow, they become more complex to manage and more bureaucratic. They tend to become more risk-averse and less innovative, defending their major income streams rather than trying to find new ones a characteristic that can lead to their decline and closure



Thank You