

Corporate Entrepreneurship and Innovation

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ENT628
Entrepreneurship

Lecture 2



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Chapter
02

Corporate Entrepreneurship

LEARNING OUTCOMES

1. Explain what is meant by the term 'corporate entrepreneurship' and critically analyze the terminology used around it.
2. Explain what is meant by the term 'organizational architecture' and how it might be shaped through leadership and management, culture, structure and strategies so as to make an organization more entrepreneurial
3. Explain what is meant by the term 'learning organization' and how organizational learning and knowledge underpins an entrepreneurial architecture
4. Understand how context and environment should determine the appropriate architecture for an organization.

Chapter
02

Corporate Entrepreneurship

CONTENTS

- • Entrepreneurial intensity
- • Defining corporate entrepreneurship
- • Entrepreneurial orientation
- • Entrepreneurial architecture
- • Architecture, relationships, and organization knowledge
- • Architecture and organizational learning
- • Matching architecture with the environment
- • Building entrepreneurial architecture

Chapter
03

Innovation

LEARNING OUTCOMES

- Explain the meaning of innovation, its purpose and how it can be measured in a number of dimensions;
- Explain the links between creativity, invention, innovation and entrepreneurship;
- Explain how radical innovation might be stimulated and business models challenged so as to potentially cause a shift in market paradigms
- Explain the relationship between innovation and risk, profitability and growth

Chapter
03

Innovation

CONTENTS

- The purpose of innovation
- Defining and measuring innovation
- Radical product/service innovation
- Business model innovation
- Challenging market paradigms
- Creativity and innovation
- Innovation intensity
- Innovation and risk

Entrepreneurial Intensity

- Corporate entrepreneurship is the broad term used to describe entrepreneurial behavior in an established, larger organization. The objective is to encourage greater entrepreneurial intensity within the organization by increasing both the degree or scale and the frequency of entrepreneurial activity at all levels within it -at corporate, division, business unit, functional, and/or project team levels.
- **Corporate entrepreneurship** is the overarching term used to describe the mechanisms and processes they use to achieve this and the behavioral characteristics that underpin them

Entrepreneurial Intensity

- By increasing the entrepreneurial intensity it is believed that an organization will be better able to cope with change, better able to innovate, and therefore better able to gain a **competitive advantage**.
- The premise behind this approach to corporate entrepreneurship is that large **firms need to adapt to an ever-changing environment** if they are to survive, and to do so they need to adapt their strategies, structures, and cultures so as to encourage entrepreneurial activity in individual employees.

Entrepreneurial Intensity

- The key is the ability to initiate and manage rapid change in organizations, markets, and industries - to initiate and manage innovation on a continuous basis. Ultimately, it is about maintaining and/or increasing competitive advantage and therefore profitability, but for more bureaucratic organizations it may be about survival.
- Big companies ought to be good at innovation. After all, they have more resources, more knowledge, and experience -more of everything to throw at the challenge. But the reality is that it is often newer, smaller businesses that come up with innovations, particularly radical ones.
- And, as the pace of change accelerates, they seem more able to cope. The core of the problem is that traditional management focuses on efficiency and effectiveness rather than creativity and innovation - control rather than empowerment.

The new age of change and uncertainty

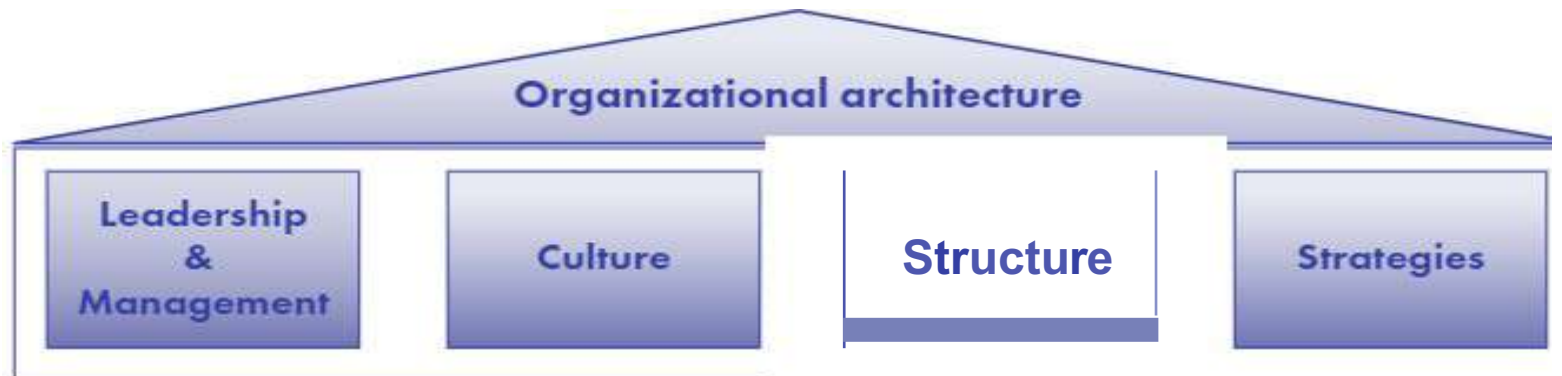
- Big companies tend to look for cost savings through scale efficiencies rather than differentiation through economies of scope (synergy). They look for uniformity rather than diversity and stress discipline rather than motivation.
- In dealing with change and innovation, larger companies ought to have some significant advantages over small ones.
- The challenge is to find ways of transforming them so that they can bring their resources to bear on the challenges of the twenty first century. Corporate entrepreneurship is now seen as a vital part of the strategies needed to rejuvenate these larger companies, maintaining their ability to innovate quickly through entrepreneurial activities.

Defining Corporate Entrepreneurship

- In the words of Zahra (1996): 'Corporate entrepreneurship is seen as the sum of a company's innovation, strategic renewal and venturing efforts': Strategic renewal is about changing the strategic direction of the organization, usually implying that it becomes more customer- and market-focused, more entrepreneurial .
- Entrepreneurial transformation, strategic renewal and strategic entrepreneurship are all terms used to describe entrepreneurial activities within larger organizations. They are evidenced by and result from, an entrepreneurial orientation within the organization - a behavioral characteristic. This is achieved through an entrepreneurial architecture -a strategic alignment of corporate resources so as to encourage entrepreneurship and innovation on a sustainable basis.

Defining Corporate Entrepreneurship

- **Organizational architecture** is a term that is a metaphor used to describe the infrastructure an organization needs in order to build business processes that deliver its vision.
- The **organizational architecture** comprises the four pillars shown in the Figure: leadership (and management), culture, structure (including systems), and strategies.



Defined it as 'involving the intentions and actions of key players functioning in a dynamic generative process aimed at new venture creation: whilst focusing on processes, practices and decision-making .

Entrepreneurial Orientation

1. **Innovativeness** - This relates to the firm's encouragement of innovation through its systems, structures and strategies.
2. **Risk-taking** - This relates to the willingness of the firm to engage in what might be seen as risky strategies in pursuit of growth.
3. **Pro-activeness** - This relates to the firm's pro-active and speedy pursuit of new opportunities for growth through research, information search, etc.
4. **Competitive aggressiveness** - This relates to how a firm engages with competitors in an aggressive way through its marketing strategies.
5. **Internal autonomy** - This relates to the ability of individuals or teams to bring forward new ideas.

Entrepreneurial Architecture

- 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.

Entrepreneurial Architecture

Organizational architecture can be both internal and external.

- **Internal architecture** focuses on employees, generating a distinctive culture, a strong sense of collectivism, of being part of a team or an 'in-group; as we saw in Chapter 1. This collectivism comes from shared objectives and commonly accepted strategies. Strong internal architecture tends to attract like-minded people and this can be either a strength or, if it creates inflexibility, a weakness.
- **External architecture** focuses on other stakeholders such as customers, partners, suppliers or subcontractors.

Entrepreneurial Architecture

- Entrepreneurial architecture seeks to embed entrepreneurial characteristics in the organization through the four pillars of organizational architecture: **leadership** {and management), **culture**, **structure** (including systems) and **strategies**. These characteristics are modelled from the entrepreneur themselves - their personal character traits and how they manage and make business decisions.

Entrepreneurial Architecture

- However, the leader's role is crucial. They have prime responsibility for shaping an organization's structure, culture and the strategies it develops, and hence its architecture
- In these circumstances strategy development becomes part of entrepreneurial architecture, creating an organization that is better able to respond to unpredictable change and opportunity in the way the entrepreneur does, making it better suited to survive in the age of uncertainty.

Architecture Relationships and Organizational Knowledge

- Strong organizational architecture is difficult to copy because it is informal in nature, not based on legal contracts and not written down anywhere. Instead it relies on the complex network of personal relationships throughout the organization.
- Any one individual only knows or understands a small part of the overall structure. And just as entrepreneurs use their network of relationships to gain information and knowledge so as to mitigate risk, so too a strong architecture can create valuable organizational knowledge.

Architecture And Organizational Learning

- 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

Architecture And Organizational Learning

- As we commented in Chapter 1, entrepreneurs learn by doing - so-called experiential learning - and they learn quickly not to repeat mistakes but to capitalize on success. Because they are one person, knowledge and information are translated into learning continuously, quickly and without barriers. As the organization grows, the challenge is for this process to be replicated across an entire organization.

Architecture And Organizational Learning

- **Experiential learning or learning organization may be defined as one that 'facilitates the learning of all its members and continuously transforms itself .**
- adapting, changing, developing and trans forming themselves in response to the needs, wishes, and aspirations of people, inside and outside'. Writings on the learning organization stress how it is flexible, adaptable, and better equipped to thrive in a turbulent environment. It facilitates learning for all its members and continually transforms itself:
 1. **Encouraging systematic problem-solving.**
 2. **Encouraging experimentation and new approaches.**
 3. **Learning from past experience and history.**
 4. **Learning from best practice and outside experience.**
 5. **Being skilled at transferring knowledge in the organization.**

Matching Architecture With Environment

- **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.'

Matching Architecture With Environment

- the organization will not prosper. As explained in Chapter 1, entrepreneurial firms thrive in **environments of change, chaos, complexity, competition**, uncertainty and even contradiction, where innovation is essential. These are highly competitive and rapidly changing markets facing pressures for greater corporate social responsibility and problems in attracting suit able staff.
- **The exact form an organization's architecture should take also depends on the economic, technological and societal environment in which it operates.** These are some of the commercial environments that entrepreneurial architecture is designed to cope with:

Matching Architecture With Environment

- Markets where new technologies are important
- Markets that value creativity - Many markets value creativity; for example, the video-gaming industry,
- New or changing markets -This could be any market that is changing rapidly for any reason.
- Interconnected markets -The interconnectedness of markets and economies tends to amplify small initial changes
- Markets where information and knowledge are important - In markets providing up-to-date or real-time information and knowledge, rapid changes in both the information and market needs are important.
- Price-sensitive markets -Markets might be highly price-sensitive, with low barriers to entry and high economies of scale.
- Markets coming to an end of their life-cycle -Either way the company will need to innovate

Matching Architecture With Environment

- The appropriate entrepreneurial architecture can even vary with the nature of the entrepreneurial intensity required within the organizational unit.
- This implies the need to break down organizations into units that reflect their commercial purpose and external environment - possibly with structures within structures, subcultures within cultures and different approaches to leadership within an overall approach.
- **Entrepreneurial architecture is not a 'one-size-fits-all' blueprint. It needs to be applied selectively, with thought and judgment.**

Building Entrepreneurial Architecture

- The personal character traits of the entrepreneur need to be reflected in the entrepreneurial architecture of an organization. As we have seen in Chapter 1, entrepreneurs are **creative and innovative risk-takers**.
- These are at the core of entrepreneurship. Their high need for achievement and internal locus of control gives them the drive and determination to push through projects when outcomes are uncertain. They value, and should therefore understand, the need for independence or autonomy of action.
- The challenge is to build all these characteristics into the architecture through its **leadership and management, culture, structure, and strategies**.

The Purpose Of Innovation

- Entrepreneurial architecture seeks to create within an organization an entrepreneurial orientation that results in greater entrepreneurial intensity as frequency and scale of entrepreneurial outputs..
- **Innovation is seen as the key to market entry, growth and survival for an enterprise** and the way entire industries change over time. Innovation, therefore, is at the heart of entrepreneurship. Entrepreneurs use it to create change and opportunity. They use it to create profit and sustain competitive advantage. And, occasionally, they use it to create entirely new industries. Firms that grow do so because they innovate in some way.
- **Invention and entrepreneurship are at the heart of national advantage**

Defining And Measuring Innovation

- **Innovation** as 'the generation, acceptance, and implementation of new ideas, processes, products, and services
- **Innovation** is probably most simply defined as 'new ways of doing something

described five types of innovation, emphasizing 'newness':

1. The introduction of a new or improved good or service.
2. The introduction of a new process.
3. The opening up of a new market.
4. The identification of new sources of supply of raw materials.
5. The creation of new types of industrial organization. This would include organizational architecture, where the components are configured in new ways

Radical Product/ Service Innovation

- Radical innovation can be disruptive - changing markets, industries, and even societies. New -to-the-world industries have been created for centuries; water power, textiles, and iron in the eighteenth century, steam, steel and rail in the nineteenth century, and electricity, chemicals and the internal combustion engine in the early twentieth century.
- The Internet and cloud-based services have lowered the barriers to entry in many industries - facilitating market entry, offering automation and economies of scale, and lowering capital costs.

Radical Product/ Service Innovation

- Radical innovation is usually associated with a 'mold-breaking' development of a 'new to-the-world' product or process (the materials used, the process employed, or how the firm is organized to deliver them) .
- The next radical, disruptive innovations are likely to revolve around artificial intelligence and nanotechnology

Business Model Innovation

- business model innovation is about developing innovative plans for how a business competes, uses its resources, structures its relationships, communicates with customers, creates value, and generates profit.
- It may involve changes to products and processes. As with all innovation, it can be anything from incremental to radical. Radical business model innovations create market paradigm shifts.
- Example cost airlines.

Business Model Innovation

- Often market paradigm shifts are made possible by developments in technologies, such as the internet, but they might arise through the emergence of new environmental conditions, untapped markets with different value expectations, or even changes in legal requirements.
- A paradigm shift happens when the things customers value from a product or service are challenged. Sometimes doing things differently can add value for the customer without involving extra costs. Sometimes doing things differently can reduce costs whilst still allowing a high price to be charged.

- This blindness is the main reason existing businesses miss out on disruptive innovation. In his study of a number of industries, characterized this as happening in stable markets where companies were geared up to deliver more of what existing customers wanted.
- The problem they had was their inability to identify and capitalize on the emergence of new markets with very different needs and expectations - one aspect of the problem of market disruption. Essentially, these firms were too close to their existing.

Business Model Innovation

- They defined service as 'the application of specialized competencies (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself. EX :car
- It involves the ability to question dominant logic and thinks creatively outside the box, to generate and assimilate new ideas and knowledge, a vision of the future that links opportunities in diverse, fragmented and often geographically widespread markets to the key capabilities of the business. And these skills need to become part of the entrepreneurial architecture of the organization.

Creativity And Innovation

- Underpinning innovation is creativity but a prerequisite to all creative processes is knowledge and the openness to different ideas. However, all too often people do not even seek out different ideas, remaining unaware of the information, knowledge, and ideas being generated around them.
- New, technology-based organizations thrive in locations that combine three elements - technology, talent, and tolerance.

Knowledge and exposure to different ideas encourage creativity, invention and radical and incremental innovation.

Innovation Intensity

- The reality is that the most commercially successful innovations are really just improvements rather than ground-breaking inventions.
- many companies were risk-averse and that a risk-averse culture was a major barrier to innovation

Innovation And Risk

- The survey by the Boston Consulting Group cited earlier found that many companies were risk-averse and that a risk-averse culture was a major barrier to innovation .
- However, whilst innovation is risky, in today's highly competitive environment not innovating is riskier. Incremental product or service innovation is generally less risky than radical innovation, not least because it builds on established knowledge and an established product or service. Established firms may have years of product or service experience, with established marketing channels and resource capabilities.

Innovation And Risk

- Product or service innovation generally becomes more difficult the further an organization strays from its core competences.
- The risks in doing so also increase. Radical innovation might involve new technologies and unknown markets.
- As you might expect, the risks associated with product or service innovation are lowest for organizations that are good at innovation -practice breeds competence.
- However, they are also lowest for organizations whose core competences lie in building good customer relationships, often associated with effective branding - allowing for brand extension. The synergy of brand extension creates economies of scope.

Innovation, Profitability And Growth

- How do you measure innovation simply use R&D spend as a proxy. However, there is no guarantee that this results in successful innovation and without that it is just an extra expenditure that will depress profits.
- Although innovation is positively associated with growth in employment any link with growth in profits is likely to be 'lagged'; with innovation taking time, perhaps years, to feed back into growth in profits - the more radical the innovation, the longer the lag

Innovation, Company Size And Industry Structure

- Large firms seem to outperform small firms where resources are important - because of capital intensity or because of the scale of spending on R&D, advertising .
- despite the fact that large firms have many advantages: such as resources, funding, product and market knowledge and experienced management. So why are they not the main source of innovation? The main reason is probably that they become too focused on their existing products and established markets - making a change in direction more difficult.
- Smaller entrepreneurial firms play a significant role in introducing radical, disruptive innovation. They spot the opportunity (perhaps coming out of basic research in the public sector), develop the innovation, and move quickly into the market .

Innovation, Company Size And Industry Structure

- Larger firms have a significant resource advantage over smaller firms and can be more productive generally. They have more resources of every kind to help with innovation and the costs of obtaining more resources are often lower than for smaller firms. However, smaller firms use the resources they have for innovation more efficiently than larger firms. Larger firms therefore have a potential competitive advantage over smaller firms in areas where the costs of innovation are high, particularly if they can develop an entrepreneurial architecture that enables them to use these resources as efficiently and effectively as smaller competitors.

Innovation, Company Size And Industry Structure

- Smaller firms thrive in industries where economies of scale are less important to customers than other factors such as marketing, service quality, or variety.
- Smaller entrepreneurial firms are less important in stable, mature, high-concentration industries where the innovation focus has switched to efficiency and cost reduction. In these environments an entrepreneurial architecture may be counter-productive.



Thank You