

Corporate Entrepreneurship and Innovation

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Entrepreneurship

Lecture 10

Chapter
15

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Venture Teams And Entrepreneurs

LEARNING OUTCOMES

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The multi-product/market firm

- Most large firms have a portfolio of different **product/market offerings**.
Even as successive waves of innovation might bring in new products or new markets, however, the old product/market offerings still need to be managed — and innovation, albeit probably only incremental — continues to have a part to play.
- **Having a product/market portfolio creates managerial complexity with each product/market offering potentially at a different stage in its life-cycle and with its own business model and marketing strategy.** That complexity increases again if the business is multinational and operates in a number of countries.

The multi-product/market firm

- **If the product/market range becomes so diverse that the company effectively operates in different industries, it is said to be a conglomerate.**
- This can happen because the company, either intentionally or unintentionally, follows the strategy of diversification. This can result from radical, disruptive innovations that create opportunities to develop whole new industries. Whilst a multi-product/market firm might be organized along divisional lines, if it becomes a conglomerate it is far more likely to operate as a parent company (a holding-company with a head office) and subsidiaries.
- This chapter will provide some tools to help manage the complexity of a portfolio of products and markets. It looks at some issues surrounding public companies and their stock market valuation. In particular, it looks at how an entrepreneurial firm that expands into emerging products and markets can create and sustain shareholder value — even if it becomes a conglomerate — by minimizing risk and maximizing opportunity. It also explores how new product/market developments might be organized within the organization so as to maximize shareholder value.

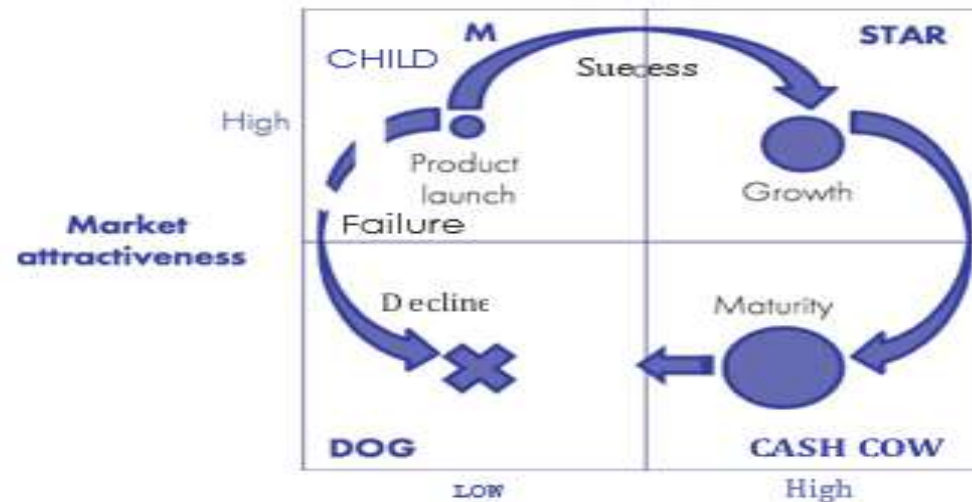
The multi-product/market firm Case study

Creating a portfolio of different product/market offerings may add managerial complexity but it can offer some advantages. We saw in Case insight S.4 how Google, the core business of Alphabet, was a cash generator that financed its other innovation activities. Within Google, there are a number of product/market offerings such as Search, Ads, Android, YouTube, Apps, Cloud Computing and Maps, each with its own business model and marketing strategy, which is coordinated across all the Alphabet subsidiaries by head office.



The Product/Market Portfolio

The growth-share matrix is a simple tool for showing the important issues facing products at different stages of their life and the implications for strategy.



The Product/Market Portfolio

The vertical axis measures the market attractiveness — the growth and profit potential (rather than the historic growth rate) of the market.

The horizontal axis measures the strength of the product/service in this market — its sales, relative market share etc. A product/service is launched into an attractive market (other- wise why do it?), but its market position is likely to be weak to start with This is called a Problem Ould.

If the market continues to be attractive, sales will grow and its market position will strengthen. This is called a Stan Eventually, however, the market will mature, becoming less attractive, and the product/service will become a Cash Cow — a market leader with a lot of stability, but little potential for additional growth because it is approaching the end of its life. Eventually, it will become a Dog and its life will be terminated. Sometimes the market a product is launched into proves to be unattractive — then its life is very short as it becomes a Dog. A Cash Dog might prolong its lifé because it covers its costs, at least for a time. The arrows show the trajectory of travel in the matrix and the size of the circle represents the value or volume of sale

Cash Flows And The Product/Market Portfolio

As a product moves through this matrix there are implications for cash flow and the different business skills required. It is the entrepreneurial and marketing skills that are of the most value. This phase consumes cash for development and promotional costs at a rate of knots, while at the same time generating little cash by way of revenues.

Their skills are also important and marketing costs will continue to be high but at least the product should be generating revenues that will at least meet these costs.

Multi-product/Markets And Conglomerates

There is no clear distinction between a company operating in diverse products/markets and a conglomerate, which is said to operate in different industries. The distinction revolved around the degree of connection between the different markets and when they are sufficiently distinct to become separate industries.

However, the new era of technology is blurring these boundaries. Hardware and software are increasingly linked, with the US tech giants (Alphabet, Amazon, Apple, Facebook, and Microsoft) able to offer virtual and physical, goods, and services, marketed (in real-time) using algorithms based on information they have gained from intelligent systems embedded in the software we are using (cookies).



Multi-product/Markets And Conglomerates

Today, they can come out of a strategy of promoting innovation as radical innovations spawn new-to-the-world industries. Diversification through the acquisition of other companies was a major feature of post-war Western corporate activity until the 1980s. Conglomerates became popular because it was thought that they would reduce risk and therefore increase shareholder value.

Different products/markets have different cycles of growth and decline; by combining them, you can reduce or smooth the effect of these differences, particularly upon the overall cash flow of the organization this form of risk reduction appealed to managers, whose jobs depended on the company continuing to operate. These acquisitions were often financed by high levels of borrowing. But the great conglomerate-merger wave did not generally lead to improvements in performance for the firms that were involved.

Shareholder Value And Diversification

The problem is that, although it is traditionally viewed as risky, diversification is central to the process of corporate evolution — whether through incremental or radical shifts in products/markets. As products come to the end of their natural life cycles, the longevity of any particular organization will depend on its ability to innovate and in so doing eventually redefine the business it is in, applying existing capabilities to developing new products and markets, perhaps even new industries, and buying-in those capabilities when necessary.

And opportunities for diversification are the natural outcomes of internal and/or external corporate venturing within a firm with an entrepreneurial architecture. The challenge is to make clear how diversification can create shareholder value.

Shareholder Value And Diversification

The arguments against diversification revolve around risk and not straying from a firm's core skills, knowledge, and capabilities, applied to a relevant market. However, products, markets and society are changing rapidly and in this context, shareholder value can indeed be created in a systematic process that includes diversification.

Listed below are the ways in which an entrepreneurial multi-product/market business (a conglomerate) can create real value for its shareholders:

Shareholder Value And Diversification

The distinctive capabilities of a firm with an entrepreneurial architecture relate to its ability to innovate, again and again.

These capabilities can be extended across more products or services. In effect, the firm's core business is innovation through both internal and external corporate venturing, including acquisitions. Operationally related innovations can be integrated into existing operations or licensed out to other firms depending on their strategic importance thereby creating shareholder value. Those innovations that are not can be spun off and sold, also creating shareholder value.

Shareholder Value And Diversification

Markets are changing rapidly and new product/market opportunities are emerging, particularly with regard to new technologies.

Radical innovation creates the product/ markets of the future, not the past, meaning that the core skills, knowledge and capabilities needed to exploit them have still to be determined.

An innovating firm with an entrepreneurial architecture should be able to combine its portfolio of core competencies in various ways to meet opportunities.

Furthermore, it will have first-mover advantage and be well placed to dominate the new product/market (industry) it creates, exploit its monopoly or oligopoly position and create shareholder super-value.

Shareholder Value And Diversification

An **aggressive acquisition strategy** can be combined with internally generated innovations to produce diversification creep, minimizing the risks associated with new product/market development.

The speed at which an acquisition can be executed allows rapid entry to these new product/market opportunities. By combining incremental and radical innovation, internal and external corporate venturing, and adopting a portfolio approach to product and business organization the risks associated with diversification can be minimized.



Shareholder Value In Conglomerates

- Investors are increasingly understanding of lengthy periods of low or no profit for companies with proprietary technology or companies (such as Uber and Airbnb) which might be creating new, enormous industries that they are able to dominate and then benefit from monopoly or oligopoly profits.
- In developing into conglomerates, the tech giants have often deployed both strategies. They have also found both economies of scale and scope to add further value for shareholders. The scale and scope of their activities are allowing them to dominate markets, wield excessive market power, and stifle competition, often buying out local competitors.

Shareholder Value In Conglomerates

For example, in 2017 Google was fined C2.4 billion by the EU Antitrust Commission for abusing its market position through promoting its own shopping service in search results. The following year, it was fined a further £4.34 billion for using its Android operating system to restrict competition by requiring smartphone and tablet manufacturers that use Android to exclusively pre-install several of Google's own applications (e.g., its search engine).



Organization Structure And Product/Market Portfolios

- This look has argued that the organizational architecture of an operating unit will be a key determinant. In particular, **entrepreneurial architecture will be a key source of competitive advantage in a highly competitive and changing market.** Although innovation will be part of the fabric of the organization, different forms of innovation may well require different organizational structures to encourage their development.
- **Diverse product/market portfolios can insulate a company from the risks associated with individual markets.**
- As we have seen, a balanced portfolio can also provide the cash flow to finance innovation, and that can insulate it from the demands of the stock market. Having a portfolio of different product/market offerings begs the question as to how they might be organized.

Entrepreneurial Architecture

- The entrepreneurial architecture comprises **four elements or pillars: leadership and management, culture, structures and strategies**. **Combined** so as to match the challenges of **the competitive environment**, they form a powerful force to develop sustainable competitive advantage and in particular the ability to innovate continuously.
- Kay (1995) identified three capabilities that he said formed the basis for sustainable competitive advantage. All three may be viewed as part of the entrepreneurial architecture defined in this book.

Entrepreneurial Architecture

The three capabilities are:

- **Reputation** — This is often encapsulated in brand identity but equally can be communicated through the relationships embedded in the architecture.
- **The way the organization innovates** — This is one of the defining characteristics of the organization's entrepreneurial architecture enabling innovation to take place again and again and again.
- **The organization's strategic assets** — These are the ones to which competitors do not have access. However, the most valuable is likely to be its entrepreneurial architecture because it is a multilevel activity and therefore difficult to copy.

Cultural Characteristics Of An Entrepreneurial Organization

- We have characterized the entrepreneurial environment as **highly competitive**, one of rapid change and uncertainty where speed of response and innovation are vital and knowledge and learning are of paramount importance. Where a multi-product, multimarket business has different organizational needs in its various operating divisions or subsidiaries, what is important is that the overarching structure linking the operating divisions or subsidiaries has an entrepreneurial architecture.

Product/ Market Expansion

Establishing an appropriate corporate culture is vital if you want to develop an entrepreneurial organization. Based on values, norms, and beliefs, influences individual and social behavioral norms.

The culture should see change as the norm, certainly not something to be feared Above all, it should value strong relationships, creativity, innovation, empowerment, measured risk-taking through experimentation, and continual learning.

It should value relationships sufficiently to generate a strong sense of group identity. It should have confidence in its future. It should be egalitarian but slightly anti-authoritarian — always daring to be different.

Product/ Market Expansion

It will tolerate mistakes and should encourage learning from them. Individuals should feel empowered and motivated to make decisions for the good of the organization. Indeed, decision-making will be delegated down, as far as possible, and information will be shared rather than hoarded. There will be an attitude around the achievement of that value.

A strong organizational culture is particularly necessary because of the informal organizational structure and loose management control. The culture needs to build a strong identity (Hofstede's in-group). This can be built around the vision of the organization as well as its recognizable values, norms, and beliefs. It needs to be consistent with the leadership and management style adopted within the organization.

Product/ Market Expansion

In Hofstede's dimensions, the organizational culture should exhibit:

Balance between individualism and collectivism, implying that whilst individual initiative is valued so too are cooperative relationships and networks with a strong sense of in-group, and a clear identity and a feeling of competition against 'out-groups';

Low power distance, implying an egalitarian organization with flat structures and open and informal relationships and open, unrestricted information.

Product/ Market Expansion

In Hofstede's dimensions, the organizational culture should exhibit:

Low uncertainty avoidance, implying a tolerance of risk and ambiguity, a preference for flexibility and an empowered culture that rewards personal and team initiative;

The balance between masculine and feminine dimensions, implying encouragement to build a culture of achievement against out-groups through cooperation, networks and relationships within the in-group.

The New Venture Creation Framework

Cultural characteristics of an entrepreneurial organization

The organization **encourages** entrepreneurial risk-taking.

The **organization is on empowering one.**

The **organization sees change as normal.**

The organization encourages staff to build relationships at all levels.

The organization encourages creativity and innovation

The organization encourages continuous innovation

The organization is egalitarian.

Structural Characteristics Of An Entrepreneurial Organization

Structure is needed to create order within an organization but the most appropriate one depends on many other factors, such as the nature of its tasks or operations and the culture it wishes to encourage.

There is no single 'best' structure. Entrepreneurial organizations typically face a high degree of environmental uncertainty and turbulence.

If the tasks or operations they need to undertake are complex, they are best served by an organic organizational structure that may well change and evolve in different situations. An organic structure is like a spider's web made up of smaller spider's webs — teams working with other teams — with membership based upon expertise, not role, and each with considerable autonomy. It works well with an empowered, entrepreneurial culture.

Structural Characteristics Of An Entrepreneurial Organization

The common themes are that an entrepreneurial structure must be flexible to fit changing circumstances, with structures within structures that encourage smaller, often informal, organic structures to develop, each with considerable autonomy. As the levels of formal hierarchy are reduced, the managerial span of control will widen, with an emphasis on getting things done.

The processes underlying how the different levels of hierarchy interact and communicate are just as important as the structure itself. They should encourage rapid, open, effective communication across and throughout the organization, so that decision-making can be delegated as much as possible, giving staff greater autonomy and looser control, albeit with greater accountability. Structures, behaviors, even controls are likely to be more informal than formal, based on strong relationships. It certainly will not be bureaucratic in any way.

Developing Existing Products And Markets

Entrepreneurial organizations are likely to exhibit other organizational characteristics or forms:

- Structures to encourage and facilitate intrapreneurship, including project and venture teams;
- Facilities that can be used to encourage creative thinking and project experimentation and development;
- Structures to encourage and facilitate internal and external corporate venturing;
- Participation in numerous formal and informal, real and virtual networks, including crowdsourcing and open innovation;
- Strategic alliances/partnerships and joint ventures with other organizations, including licensing of technologies etc.;
- Relatively autonomous Strategic Business Units and a track record of spin-offs.

Finding New Markets

Structural characteristics of an entrepreneurial organization

The senior management team (head office) are organized organically

the organization is broken down into small sub-structures

the organization is not hierarchical

the organization is not bureaucratic

the organization structure is flexible

there is loose organizational control but tight accountability

there is a new venture unit, department and/or division.

Structures encourage entrepreneurship.

Leadership Characteristics For An Entrepreneurial Organization

Effective leadership and management styles depend upon a range of contextual factors, including group, task, and situation.

Whilst there is, therefore, no blueprint for success, we have characterized good leadership in an entrepreneurial environment as visionary, and transformational but distributed (team-based). The high-level leadership team ideally comprises just half a dozen executives who trust each other, share information, and cover for each other. That model is replicated across the entire organization. To be effective, leaders need to have good emotional intelligence — both self- and social awareness as well as good social skills.

Leadership Characteristics For An Entrepreneurial Organization

characteristics of a good leader in an entrepreneurial organization are set out below:

- 1- **Visionary** — They should be driven by a strong vision, underpinned by equally strong values. However, this vision should be grounded in sufficient reality to make the vision appear achievable, albeit causing some tension.
- 2- **Good communicator/motivator** — They should be able to communicate this vision effectively, through many mechanisms, but particularly informal influence. They should lead by example — 'walking the talk! They should, somehow, embody the vision and values that they have for the organization. Staff motivation should be underpinned by loyalty to both the leader and the organization.

Leadership Characteristics For An Entrepreneurial Organization

- 3- **Strategic thinker and learner** — They should be a strategic thinker, able to rise above day-to-day crises and see the bigger picture, perpetually scanning the environment for both opportunities and risks. They should be a strategic learner, trying to find patterns in the environment over time and looking for complex interactions so as to understand the underlying causes that give clues about the opportunities and risks.
- 4- **Emotionally intelligent with strong interpersonal skills** — They should be able to listen, to influence others rather than to direct, and therefore be able to manage 'with a light touch' They should be adept at reconciling conflict and dealing with ambiguity and uncertainty. To be emotionally intelligent, they should be self-aware and reflective. They also need to exercise a degree of self-management

Leadership Characteristics For An Entrepreneurial Organization

5- **Relationship builder** — They should be adept at using their emotional intelligence and interpersonal skills to build strong personal relationships with all the stakeholders in the organization.

6- **Team player** — They should value team working and be a team player, willing to share information and delegate to the team. They should have built a cohesive, open, and trusting top management team, although that might comprise just three or four individuals who share knowledge.

7- **Builder of confidence** — They should be able to encourage organizational self-confidence and self-efficacy in the face of uncertainty and risk-taking. They should be able to inspire others to share their visions and dreams through their emotional intelligence and ability to build relationships.

Leadership Characteristics For An Entrepreneurial Organization

Leadership characteristics of an entrepreneurial organization

There is a clear vision for the organization.

Senior managers model the vision and values of the organization — they walk-the-talk.

the vision for the organization is clearly communicated.

there are clear values underpinning everything the organization does

there is a clear strategy for achieving the vision.

the vision is realistic and achievable but stretching.

the organization has strategic options for the future.

Strategies For An Entrepreneurial Organization

The strategies that an organization pursues are particular to its situation and difficult to generalize. However, an entrepreneurial organization faces a complex and inherently unpredictable environment and is likely to develop a strategy in a certain way and to be pursuing a number of typical strategies.

These are the common themes:

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Strategies For An Entrepreneurial Organization

Decision-making will tend to be decentralized, incremental, and adaptive, so as to maintain maximum flexibility. But it should be underpinned by a strong vision and an understanding of the strategies being adopted to achieve the vision. There may be some simple rules that provide guidance, but staff will know enough about the organization and be motivated to do the best they can. Mistakes will be tolerated and learned from. In this way, the organization will be able to respond speedily to opportunities or threats.

Strategies For An Entrepreneurial Organization

The organization will understand its strengths and its core competencies at both corporate and business levels. At the corporate level, a major strategic imperative will be the continuing development of its entrepreneurial architecture, and all that entails. If it is pursuing a policy of acquisition this should be part of a coherent strategy (for example, as part of buying into new markets, product developments, or developing industries). If it is a multi-product multi-market business, it will create value by operating effectively and creating synergistic linkages across all the operating units unifying diverse management and sharing resources, capabilities, and knowledge more effectively than might otherwise be the case

Corporate-level Strategic Review

There should be a strategy to encourage innovation. Strategies to encourage innovation are likely to include internal and external corporate venturing, networking, strategic alliances/partnerships and joint ventures. There should be a strategy for mitigating the risks associated with innovation, particularly disruptive innovation, such as experimentation, limited launches, joint ventures and compartmentalization. The organization should take a portfolio approach to its innovative activities

Corporate-level Strategic Review

Characteristics of strategies likely to be seen in an entrepreneurial organization

there are clear values underpinning everything the organization

the vision is realistic and achievable but stretching

Staff are encouraged to spot commercial opportunities for the organization.

there are strategic options for the future.

there is an understanding of the organization's core competencies

Encouraging entrepreneurship is central to the organization strategy.

there are strategies and structures to get customer feedback.

Environment For An Entrepreneurial Organization

Entrepreneurial firms thrive in environments of change, chaos, complexity, competition, uncertainty, and even contradiction. Their interconnectedness tends to amplify small initial changes. This rapid, continuous interconnected change makes for instability and unpredictability and it means that traditional forms of strategic planning no longer work. These sorts of markets are likely to be characterized by rapid technological change in markets where this is important and valued by customers — for example, because of their need for knowledge and information. Such markets offer considerable first-mover advantage and reinforce the importance of a rapid response to developments. Markets might be highly price-sensitive, with low barriers to entry and high economies of scale.

Environment For An Entrepreneurial Organization

Characteristics of an environment where an entrepreneurial architecture would be beneficial

the commercial environment is highly competitive.

the commercial environment is unstable and unpredictable.

the commercial environment changes rapidly and continuously.

Technological change is rapid and strongly influences the market

future is highly uncertain.

Innovation is valued by customers.

Thank You