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THE ROLE OF CORPORATE ENTREPRENEURSHIP IN SOLVING THE COMPETITIVENESS CRISIS OF LARGE COMPANIES*

Uloga korporativnog preduzetništva
u rešavanju krize konkurentnosti
velikih preduzeća

Abstract

The purpose of this paper is to highlight importance of entrepreneurship in gaining and maintaining competitive advantage in large companies. The paper examines following four forms of corporate entrepreneurship and its development modalities: Corporate venturing, Intrapreneurship, "Bringing the market inside", and Entrepreneurial transformation. The paper has demonstrated that lack of entrepreneurial focus is not necessarily an outcome of company's developmental growth, i.e. that lack of entrepreneurial spirit can be postponed, prevented, or retrieved if lost and that entrepreneurial transformation entails profound and complex changes in organizational structure. Even more, entrepreneurial behavior is becoming more and more a company's growth factor. Growing entrepreneurial transformation need will ultimately require new organizational forms and wider range of applicable solutions.

Key words: *corporate entrepreneurship, corporate venturing, intrapreneurship, "bringing the market inside", entrepreneurial transformation, innovations*

Sažetak

Cilj ovog rada je ukaže na značaj preduzetništva za sticanje i održanje konkurentne prednosti velikih preduzeća. U radu se razmatraju sledeća četiri oblika korporativnog preduzetništva i načini njihovog razvoja: Korporativno investiranje u nova preduzeća, Unutrašnje preduzetništvo, Uvođenje tržišta, i Preduzetnička transformacija. Rad pokazuje da gubitak preduzetničkog fokusa ne mora biti nužna posledica rasta preduzeća, odnosno da se gubitak preduzetničkog duha može odložiti ili sprečiti, a ako je izgubljen onda vrati kao i da preduzetnička transformacija podrazumeva korenite i složene promene strukture preduzeća. Čak i više, preduzetničko ponašanje postaje sve više uslov rasta preduzeća. Sve veće potrebe

za preduzetničkom transformacijom preduzeća u budućnosti nužno će tražiti nove forme organizacije i širi spektar mogućih rešenja.

Ključne reči: *korporativno preduzetništvo, korporativno investiranje u nova preduzeća, unutrašnje preduzetništvo, uvođenje tržišta, preduzetnička transformacija, inovacije*

Introduction

Narrowly defined, entrepreneurial process includes all functions and activities related to the perception of business opportunities and creation of business start-ups in order to seize identified opportunities and generate value. Based on this approach to the entrepreneurial process, entrepreneurship is often associated with starting a new business or activities of small and medium enterprises. Even though this characterization can be justified by the fact that starting a new business is the most evident and widespread form of entrepreneurial activity, subduing entrepreneurship to a new business start-up is major simplification of the phenomenon.¹ To be exact, although the functions and activities of new business start-up – from perception of business opportunities, their evaluation, ensuring required resources, to the operating

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1 The fact that in the US every hour of every business day one thousand new businesses are founded supports the notion that starting a new business is a very intensive activity. See: [8, p. 1]. Even in Serbia, where new businesses do not emerge as often as in the US and other developed and large countries, entrepreneurial process is quite intensive as, during the last few years, there were on average two hundred registered new businesses and entrepreneurial units per day (calculation based according to the data on the number of registered companies and shops from 2006 to 2010, see: [13, p. 10]).

start – are indisputably important, they are only a part of the entire entrepreneurial process that defines assumptions for capitalizing on identified business opportunities. Hence, comparing entrepreneurship with the process of new business start-up represents a significant simplification in understanding the entrepreneurship phenomenon.

A more comprehensive approach to complete understanding of the essence and economic function of entrepreneurship implies wider consideration of the entrepreneurial process that – aside from the activities preceding a company start-up – entails consideration of all activities following operating start and management of a company in its different growth and development phases, and ultimately ending when entrepreneurs leave a company. This approach also has its limitations, as it mainly refers to the activities of small and medium enterprises, while it ignores large organizations. Explanation of the approach lies in the paradox that many companies that base success on entrepreneurial behavior lose these success features with developmental growth. With growth and development, companies become bureaucratic, more conservative and avoid risk-taking, which leads to losing one of their major driving forces for further growth and development. Lack of entrepreneurial spirit, i.e. bureaucratization of an organization, represents one of the conclusions of numerous theoretical and empirical studies on company's growth cycles, conceptualized in the so-called company growth phases models or company life-cycle models. For example, two well-known and frequently cited models, developed by Greiner [11] and Churchill and Lewis [10], foresee bureaucratization, i.e. lack of entrepreneurial spirit, as a final developmental crisis of a company.

As a consequence of expressed views, entrepreneurship is often tied to new business start-ups and activities of small and medium enterprises, while importance of entrepreneurship for acquiring and maintaining competitive advantage of large organizations is largely ignored. Such views obviously contradict with the fact that many important innovations, especially resource intensive technologies, emerged in large companies, and not in small enterprises.

Following the aforementioned, the purpose of this paper is to highlight importance of entrepreneurship in gaining and maintaining competitive advantage in large

companies. The paper should demonstrate that lack of entrepreneurial focus is not necessarily an outcome of company's developmental growth, i.e. that lack of entrepreneurial spirit can be postponed, prevented, or retrieved if lost. With that in mind, the paper examines different forms of corporate entrepreneurship and its development modalities.

Definition, characteristics and basic types of corporate entrepreneurship

“Corporate entrepreneurship” refers to different types of entrepreneurial behavior in existing, large organizations (corporations) aimed at achieving – through encouraging innovation – competitive advantage at all levels: corporate, divisional, business unit, business functions and project teams [5, p. 471]. Although since the late 1980s some authors argued that entrepreneurial activities could not be associated with large corporations, there were a growing number of corporate entrepreneurship concept advocates, so in the last decade of the 20th century the term “corporate entrepreneurship” became quite commonly used. At the same time, a growing number of authors argue that companies of all sizes need entrepreneurial behavior in order to survive and perform in a competitive environment [2, p. 421]. Although in the meantime a growing body of corporate entrepreneurship literature emerged, there is no unanimity on the meaning of the term, i.e. on activities characterizing corporate entrepreneurship, or – in other words – on corporate entrepreneurship types. Even so, the majority of authors agree that corporate entrepreneurship is characterized by several groups of activities, such as: the birth of new companies/businesses within existing companies/businesses; the transformation or strategic rebirth of existing organizations; the birth of new ideas at different organizational levels, etc. Besides, some authors differently classify same or similar entrepreneurial activities. According to a group of authors, there are three types of corporate entrepreneurship [16, p. 521]. The first type is a new business creation within an existing organization. Change initiators are individuals or smaller groups, acting within existing organizations, capable of influencing other employees to change their behavior, which affects creation

of new corporate resources. The second type of corporate entrepreneurship entails comprehensive transformation activities, or (rebirth and) renewal and restructuring of existing organizations. It implies a thorough and more expensive approach to the entire process, which changes resource use pattern in order to achieve better economic performance. The third type of corporate entrepreneurship implies change in “rules of competition” in Schumpeter’s terms. This type of corporate entrepreneurship entails radical changes not only in an organization, but also in its entire environment, i.e. scope of its business or industry in which an organization operates. It is typical of emerging industries and companies entering an industry, but also common for organizations operating longer-term in mature industries. Innovations that change competition rules usually involve new combinations such as, for example: higher quality and lower price, minimizing and cost-cutting, fashion and mass-markets, etc [16].

Following a broader view of corporate entrepreneurship, seen as development of new business ideas and opportunities within large and established corporations, Birkinshaw [3] identifies the following four approaches, or – as he classifies them – the schools of thought on corporate entrepreneurship:

- Corporate venturing,
- Intrapreneurship,
- “Bringing the market inside”, and
- Entrepreneurial transformation.

Corporate venturing, as one of corporate entrepreneurship forms, entails different activities related to investing in start-up and management of new small firms by a large company. This form of corporate entrepreneurship is applied when a large company has to manage a new business venture independently from its core business. New business ventures emerge from investments of large corporations in strategically important small firms or other forms of corporate venturing. The need to spur independent small enterprises, while simultaneously harmonizing their operations with those of a large company, highlights the significance of development of adequate organizational arrangements for this form of corporate entrepreneurship. This approach to corporate entrepreneurship considers

different types of new ventures and their harmonizing with operations of existing corporations [1].

Corporations rarely invest in new business ventures to achieve short-term financial gain; their motives are primarily tied to use of innovations in order to achieve strategic objectives. By investing in new business ventures or buying innovative small enterprises, large corporations acquire possibility to capitalize on advantages gained through innovation in critical technology development areas. Today, this form of corporate entrepreneurship is quite common in pharmaceutical, electronics and other high-technology sectors.

Intrapreneurship is a form of corporate entrepreneurship based on readiness and preference of individuals employed in a large company to assume entrepreneurial behavior. This approach follows an assumption that systems and structures preventing entrepreneurial behavior are typical in large companies, so individual entrepreneurs need to actively confront these entrepreneurial behavior barriers. The approach considers different tactics used by corporate entrepreneurs in order to encourage entrepreneurial behavior in large companies, as well as large corporations’ management reactions to such incentives. It also considers personality and style characteristics shaping individuals into good corporate entrepreneurs.

The term “intrapreneurship” was introduced in 1985 by Gifford Pinchot in his eponymous book.² In brief, intrapreneurs are entrepreneurs in large companies. They are similar to entrepreneurs, but their position is specific as, on the one hand, they create entrepreneurial structures and culture around them, and on the other, they are required to communicate with the bureaucratic organization they work for in order to overcome bureaucratic barriers to development of new products and services and enable their rapid market entry [5, p. 473].

Bringing the market inside, as the third form of

2 At the beginning of his book, Pinchot defines intrapreneurs as “the dreamers who do”. According to him, intrapreneurs are responsible for innovation of any type in a company. Intrapreneur might be an innovator, but is always a dreamer who creates solutions to convert ideas into ventures yielding tangible results. The notion that there are no essential differences between an intrapreneur and an entrepreneur is supported by Pinchot’s definition of an entrepreneur according to which an entrepreneur is an individual assuming the role of an intrapreneur outside the organization. See: [14].

corporate entrepreneurship, focuses on implementing structural changes in an organization in order to encourage entrepreneurial behavior. The word “market” in this form of corporate entrepreneurship aims at emphasizing the importance of market approach to managing resource allocation in large companies and wider use of techniques based on market principles, such as spin-offs and operations with corporate venture capital.

Entrepreneurial transformation, as a form of corporate entrepreneurship, emphasizes importance of adapting to an ever-changing environment; for a large company, the best way to adapt is through coordinated changes of organizational structure and culture, so as to encourage entrepreneurial behavior of individuals it employs. According to advocates of this approach, the three previously reviewed approaches are merely a tool or technique utilized to bring about entrepreneurial transformation of an organization.

The paper further reviews characteristics of the above-mentioned corporate entrepreneurship forms in detail, as well as their appropriate methods and development instruments. In doing so, entrepreneurial transformation is regarded as the most complex form of corporate entrepreneurship.

Entrepreneurial transformation in large companies

As noted earlier, entrepreneurial transformation implies adapting of large organizations to an ever-changing environment, which is achieved through coordinated changes of organizational structure and culture in order to encourage individual entrepreneurial behavior. According to this approach, the aspects influencing individual entrepreneurial behavior and comprising the so-called “entrepreneurial architecture” are: leadership, strategies, systems, structures and organizational culture [5, p. 473].

Broadly defined, the term “architecture” implies set of relations – within and around an organization – among different stakeholders, such as: staff, customers, suppliers, and similar. These relations are long-term, not necessarily contractual, often partially defined, and based on stakeholders’ interest to mutually cooperate. The basis

of these relations is mutual trust among stakeholders, although individual stakeholders are in pursuit of self-interest. Pursuit of self-interest represents protection from stakeholders’ opportunistic behavior, since the breach of mutual trust leads to ruptured mutual cooperation. These relations largely affect employees – whether and how they manifest entrepreneurial behavior. Just as individual entrepreneurs use their relation networks with different stakeholders to benefit from perceived opportunities, an organization uses entrepreneurial architecture to rapidly react to a changing environment and seize business opportunities generated by these changes.

Entrepreneurial architecture contributes to the creation of a dynamic ability of an organization to adapt to a changing environment which is, given that it is not formalized and is based on complex personal relations within an organization, difficult to copy. Dynamic ability to adapt grows with creation and accumulation of knowledge within an organization and with development of routine practices, which should facilitate implementation of changes without disruption. Aware that changes are good for an organization, employees are motivated to initiate and implement them. By institutionalizing relations among different stakeholders, entrepreneurial architecture contributes to creating and sustaining competitive advantages of an organization.

Knowledge is an important factor of the entrepreneurial process. Individual entrepreneur acquires knowledge by performing tasks. Speaking of individuals, acquired knowledge is transferred quickly and without obstruction. However, as an organization grows in size, continuous knowledge transfer among staff confronts higher barriers. Therefore, creating an organization that will encourage staff learning – so they could continuously change, adapt and evolve in line with needs and requirements of others within and around an organization – is an important element of entrepreneurial architecture and entrepreneurial transformation presumption. A learning organization can easily and rapidly adapt to a changing environment. Just as one of the main features of a successful entrepreneur is the ability to change and learn [17, p. 166], a learning organization is a true entrepreneurial organization. Such an organization facilitates learning and change

for its staff by encouraging systematic problem solving, experimentation and new approaches, learning from past experience and history, learning from best practice and outside experience, and knowledge transfer within the organization. Besides, a learning organization develops mechanisms for information gathering and their distribution to staff, on the way experimental, creative work contributes to organization's increased performance results [15, p. 803].

The key role in the process of building entrepreneurial architecture is that of an *entrepreneurial leader*. Entrepreneurial leader sets structures (including systems and processes), creates organizational culture and facilitates strategy development and implementation. The role of an owner or a manager does not automatically suppose an entrepreneur with a leadership role in an organization. In order for an entrepreneur to be a leader, s/he has to be voluntarily and conscientiously accepted by staff. Like authority, leadership is also attained by particular behavior and results. There is no universal leadership style. On the contrary, when playing the role of a leader, an entrepreneur has to nurture specific relationship with every subordinate, adjusting the style to specific circumstances and staff traits. Therefore, failure of an entrepreneur as a leader usually demonstrates a lack of variety in leadership styles or unwillingness of an entrepreneur to adjust his/her leadership style to particular circumstances and staff traits. This is why a continuous adjustment of a leadership style is vital as organization grows and employs new people.

In stimulating workforce to achieve organizational goals, it is necessary that entrepreneur constantly pays attention to individual employee motivation. Many entrepreneurs make a common mistake by an inaccurate assumption that everyone is as motivated as they are and do little to motivate people in their organizations. Besides, many entrepreneurs wrongly assume that motivation at the beginning of employees' professional careers remains at the same level during later stages of their employment [15, p. 796]. Being concrete activity involving direct, constant work with people, leadership entails particular skills, requiring from an entrepreneur particular leadership style, communication skills, technical knowledge and an array of entrepreneurial traits.

By building entrepreneurial architecture, entrepreneurial

leader creates incentives for systematic search for business opportunities and innovation at all large company levels, starting from corporate level, divisions and business units, to business functions and project teams' level, so as to create and develop competitive advantages of the company. Entrepreneurial architecture encourages development of entrepreneurial management style, i.e. shift from traditional to entrepreneurial management. Among other things, this means transition from control and penalties to encouraging search for new business opportunities; from focus on efficiency and effectiveness to emphasizing importance of value drivers; shift from contractual to overall relationships and relations within and around an organization; shift from training to learning; from fostering uniformity and conformity to empowering vision and questioning status quo [5, pp. 478-479]. Besides, transition from traditional to entrepreneurial management style entails an entirely different attitude to risk, uncertainty and ambiguity – instead of fostering certainty, risk-avoidance and nonambiguity, entrepreneurial management style tolerates uncertainty and ambiguity, while employees are empowered to become risk-takers. Formal control of creative acting is reduced to a minimum, as it is emphasizing and tracking failure, while penalizing failure is absolutely avoided. Entrepreneurial management style is affirmed by primacy and leading role of creative, innovative approach to a daily business routine; it develops formal systems that will empower search for superior solutions and secure time and resources for research and experimental work [15, p. 803].

Entrepreneurial architecture focuses on employees, developing sense of belonging to an organization and job security. Prime contributors are common goals and generally accepted strategies by staff.

Due to their ability to manage relationships and relations in the environment, entrepreneurial organizations successfully exchange knowledge with other organizations from their environment thus increasing flexibility and ability to adapt. This enables entrepreneurial organizations to connect with other organizations from the environment, creating various network structures, from global supplier and distribution networks, to clusters of small firms in a particular geographic region.

Organizational culture is the next important part of entrepreneurial architecture. Basic elements of a culture that fosters entrepreneurial behavior are: creativity and innovation, empowering employees to perform, solid relations and relationships, continuous learning and measured risk taking. Such culture empowers employees to work effectively (“doing the right thing”) and efficiently (“doing things right”) for the organization and for their own benefit. As organization grows, culture of individual entrepreneur changes and develops into entrepreneurial organizational culture. This transition is achieved by gradual change of the following key dimensions of organizational culture [5, pp. 481-482]:

- Transition from individualism to collectivism – as a result of organizational growth, its increased complexity and, hence, higher dependence of an entrepreneur on a team.
- Low power distance, i.e. egalitarian, loose organizational structure, open and informal relations and open communication channels.
- Low uncertainty avoidance, i.e. increased tolerance to risk and ambiguity, prone to change, empowering individual initiative and readiness to accept occasional failure.
- Creating balance between “masculine” and “feminine” values in order to build a “can-do” culture based on cooperation and close relationships within a group.³

Structure is the next key element of entrepreneurial architecture. Since structure depends on a number of constituting elements and their links and relationships, as organization grows its structure becomes more complex. Complex structure of large companies slows down information flow, extends decision-making processes, discourages initiative, etc. In order to remove these entrepreneurial behavior barriers, large corporations split their structure into a number of smaller organizational units of different independence levels. By decomposing their organizational structure, large corporations aim to gain flexibility (characteristic of small enterprises) and encourage entrepreneurial behavior of their organizational

parts. Over the past twenty or so years there is a growing trend in downsizing and restructuring of large corporations by splitting their structures into smaller organizational units and applying different externalization strategies such as: outsourcing, forming strategic alliances with small firms, creating project-based organization, etc.

Organizational structure and management style change as conditions in which organizations operate change. Traditional hierarchical structures are *mechanistic*, bureaucratized and rigid, and these are appropriate to stable conditions. In such conditions, organizational management is characterized by numerous rules and procedures, while the structure is a clear hierarchy of authority. Management is centralized, and top management delegates authority to middle and lower management levels. However, entrepreneurial organizations often operate in turbulent environments characterized by frequent, hasty and nonsystemic changes. In such environments it is impossible to define rules that will apply to changed conditions; *organic* organizational structure and informal and adaptive management style are more appropriate to operating in changing environments. Precise features of an organic organizational structure are difficult to define given that it is constantly re-shaping and changing in order to adapt to a changing environment. Number of hierarchical levels is fewer, i.e. organizational structure is less formal than traditional mechanistic structure. Structure of control and authority in organic structures is not clearly defined, while decision making is decentralized. Within this management system there are not many rules and procedures, while employees are empowered to work in teams and jointly solve problems they encounter at work. Work tasks are not precise – employees contribute to defining them, while tasks adapt to changed circumstances during the work process. Unlike mechanistic structure, characterized by vertical communication, organic structure promotes horizontal communication among employees at the same hierarchical level.⁴ With organic structure and such organization of management function, entrepreneurial organizations increase the ability to constantly adapt to a changing environment.

³ Masculine (“to act”) values are achieving success, focus on material gains, etc., while feminine (“to be”) are balance and harmony, harmonious interpersonal relationships, etc. See: [7, p. 360].

⁴ More on characteristics of mechanistic and organic management systems see in [6, pp. 43-55].

Intrapreneurship

Widely speaking, intrapreneurship is recognized as entrepreneurship in existing large organizations. It can be an isolated activity, like a project for introducing a new product to the market, a part of an existing organization or an organization independent from a large company. On the other hand, it can also be understood as spirit of entrepreneurship in existing organizations, part of wider repositioning or restructuring strategy of the entire organization or even entire industry in which the organization operates. This type of corporate entrepreneurship can, too, be practiced at all levels – corporate, divisional, business units, business functions and project teams.

By their economic function, intrapreneurs are not significantly different from other entrepreneurs. As other entrepreneurs, intrapreneurs identify opportunities for new business ventures, and initiate and lead activities that should facilitate realization of identified opportunities. The major difference between intrapreneurs and other entrepreneurs is, however, in the method identified opportunities are realized and the position these two types of entrepreneurs have in the process. While entrepreneurial ideas are realized through activities of new firms, and entrepreneur, to a large degree, independently manages the entire entrepreneurial process, intrapreneurs' ideas are realized in the existing, large corporations. In order to implement these ideas, an intrapreneur must successfully communicate with other parts of the organization s/he works for, so as to gain support for ideas by removing bureaucratic barriers to new product and service development and, hence, secure their rapid market entry. In that sense, intrapreneurs are the link between innovators and management of large companies. As other entrepreneurs, intrapreneurs are rarely innovators, but they identify innovations that have potential to become successful business ventures, promote them within an organization, and lead innovation development process into new products, services and technologies all the way to prototypes. Further business development is taken over by managers while intrapreneurs go back to new ideas to build base for new businesses – management of which would, again, be handed over to managers.

Significant support to intrapreneurs in accomplishing their function in large organizations comes from *sponsors*. Sponsors might be different level managers and experts with diverse profiles. Intrapreneurs might have several sponsors at the same time – lower level sponsors who support daily intrapreneurial activities and high-level sponsors, such as top management, that supports strategic-level ideas. Sponsors provide support to intrapreneurs in various ways like, for example: support in presenting an idea to company's management, support in addressing technical problems, support in defining market options, securing financial resources, etc.

Literature on intrapreneurship pays special attention to character and personality of intrapreneurs. Fundamentally, many personal characteristics of intrapreneurs are not different from characteristics of other entrepreneurs. So, for example, it is usually stated that intrapreneurs – like other entrepreneurs – are dedicated to work, result oriented, long-term oriented, ambitious, rational, comfortable with change, have clear goals, etc [5, pp. 489-490], [14, pp. 32-64]. Similarities between intrapreneurs and entrepreneurs are related to a higher tolerance to risk and failure. Intrapreneurs do not accept failure as a personal defeat, but as a learning experience.

Although intrapreneurs and other entrepreneurs are goal-oriented and guided by self-interest, the main disparities between intrapreneurs and entrepreneurs are in the fact that intrapreneurs receive monetary incentives and recognition from a company. Intrapreneurs have clear vision and are action oriented – at the same time they are thinkers, workers, planners and doers [14, p. 43].

Intrapreneurs are often regarded as those who play an integrating role in organizations as they cross boundaries of different organizational units by connecting and coordinating their activities, often doing work that is officially other people's job. Additionally, intrapreneurs have interpersonal skills, which are of great importance in harmonizing relationships with managers.

Intrapreneurship, i.e. status of an intrapreneur, has advantages, but disadvantages, too, compared to other forms of entrepreneurship and status of an entrepreneur [14, pp. 87-96]. These advantages come to the fore when entrepreneurial ideas are specific and tied

to a particular organization – like the ideas on business operations improvement of a certain company. An intrapreneur should stay with the existing company if his/her need for security is superior to independent venturing challenges and aspirations for higher profits. Advantages of intrapreneurship are also evident when entrepreneurial venture involves high risk, and when it is easier to access internal than external sources of finance for a new business venture. Additionally, intrapreneurship's advantages over other forms of entrepreneurship become apparent when critical business success factors are related to a particular organization, including company name, sales and distribution channels, access to organization's protected technology, etc. On the other hand, entrepreneurs enjoy higher independence and ownership benefits. Ownership benefits reflect in greater wealth and autonomy secured by ownership rights.

Bringing the market inside

When large organization approves a new business venturing idea, the question imposed relates to defining types and means of relationships with the new venture. Basically, these relations can be internal – when new business venture is integrated, or external – when new business venture is spun-off. In the first case, coordination between the new venture's resources and other company's units is achieved through internal management structures, while in the other case coordination of resources between independent organizations is regulated by the market. Aside from these apparent, extreme solutions, there is a variety of solutions lying between the extremes. Whether an organization resorts to market regulation of relationships with its venture and to what extent – i.e. whether and to what extent it “brings the market” into the relationship – depends

on strategic importance of the venture to the company, on one hand, and the level of operational relatedness of the new venture to the company, on the other. Strategic importance of a new venture reflects in its contribution to achieving company's strategic objectives, while degree of relatedness of the new venture to the parent company shows the extent to which entrepreneurial venture requires skills and abilities that differ from strategic abilities and skills of the parent organization. Generally, the higher strategic importance of a venture and the higher the level of its operational dependency on a parent company, the higher is the probability that the new venture will be integrated. And vice versa, when the level of strategic dependency of a business venture on its parent company is low or does not exist, a business venture will be spun-off and the parent company will claim no ownership. Therefore, the likelihood of business units' independence is higher when core skills are embodied in human resources, than in cases where core skills are incorporated in physical assets, since knowledge is more easily transferred to new organizations. Similarly, in a favorable market environment, the likelihood of business units' independence is higher in mature industries, engineering, technology, design, etc. that are well-known to employees, whose knowledge is then easily transferred to new ventures.

Table 1 summarizes the conceptual corporate venturing assessment framework, i.e. status and relationship of a new venture with a parent company, depending on its strategic importance and its operational dependency on a parent company.

As Table 1 shows, different levels of strategic importance and operational relatedness create different conceptual alternatives. The major characteristics of these alternatives are the following [4, pp. 162-164]:

Table 1: Corporate venturing assessment framework

Operational relatedness	Unrelated	3. Special business unit	6. Independent business unit	9. Complete spin-off
	Partly related	2. New product/ business department	5. New venture division	8. Contracting
	Strongly related	1. Direct integration	4. Micro new venture department	7. Nurturing and contracting
		Very important	Uncertain	Not important
		Strategic importance		

Source: [4, p. 161]

1. *Direct integration.* Due to high strategic importance and high operational relatedness, administrative and operative relationships between a new venture and its parent company are solid, which requires direct integration with mainstream operations. The need for direct integration is expressed in highly integrated companies whose strategic position may be endangered by, for example, new products or technologies.

2. *New product/business department.* High strategic importance and partial operational relatedness of a new venture and a parent company require combination of strong administrative and semi-strong operational bonds. New venture is integrated due to its high strategic importance, while operational reasons dictate creation of a new department. New department is established within a larger organizational unit (a division, for example) that offers highest potentials for sharing capabilities and skills with the new venture. An example of this type of a relationship is product range expansion.

3. *Special business unit.* Establishing a new business venture, independent from a parent company, usually requires hiring of new staff with diverse knowledge and skills, and creation of a special business unit that will be operationally independent. Due to high strategic importance of a new venture to its parent company, it is mandatory to establish strong administrative relationships between them, so the new venture's growth could contribute to achieving clearly set strategic objectives within a certain timeframe. Over time, several such special business units might merge into one division that will become part of corporate structure.

4. *Micro new venture department.* When strategic importance of a new business is unclear, while its operational relatedness with a parent company is high, the situation should be resolved and, meanwhile, new business kept integrated pending the resolution. This is typical for "peripheral" projects emerging in operating divisions of an organization. Administrative relationships between these projects and a company are usually loose, so management of such units – unhindered by divisional or corporate strategy – should be granted freedom to independently develop a strategy respecting budgetary and time limits. Operational relatedness should remain

strong in order to capitalize on existing capabilities and skills so that newly developed capacities could "return" to the company.

5. *New venture division.* This form is recommended in situations of uncertain strategic importance of a new venture to a company and their mutual relatedness. Pending decision on its fate, new venture division often functions as a nucleus developing new businesses that require additional investments. Whether the division is spun-off or integrated into company's mainstream operations depends on final assessment of its strategic importance to a company. Administrative relatedness with parent company is quite loose. Division management is expected to develop adequate middle level strategies for new businesses by, for example, bringing together several projects – that either exist in various parts of the corporation or can be acquired externally – and building sizable new businesses. Operational relatedness with the corporation is loose, but strong enough to encourage relevant knowledge and skills transfer from the corporation to the division and vice versa.

6. *Independent business unit.* Business ventures whose strategic importance is unclear and that have no relationship to present corporate activities are suitable for complete independence. Independent business unit is often set up by a joint venture with corporate strategic partners. The independent business unit founding company, as per ownership rights, participates in managing bodies of the unit which, among other things, enables a satisfying level of strategic control without administrative relatedness.

7. *Nurturing and contracting.* In certain cases a new business venture might be strategically irrelevant to a corporation in spite of its strong operational relatedness to corporate activities. Business ventures are usually those focusing on small market segments and hence, are unattractive to a corporation, but might be profitable for small enterprises. This form is recommended when company's core competencies are physical assets or processes that have little or no strategic importance. Hence, such assets or processes might be offered to other companies on a contractual basis. Due to strategic irrelevance to a corporation, top management supports autonomy of such ventures, helping entrepreneurs to start their own business.

High operational relatedness might facilitate transfer of new and advanced knowledge from entrepreneurs to a corporation.

8. *Contracting*. When operational relatedness between a corporation and a new venture is loose and strategic importance of a new venture is low, probability of support to the new venture is also low. In spite of that, the opportunities for profitable contractual arrangements between the corporation and the business venture still exist, as well as the possibilities for exchange of advanced knowledge through certain forms of operational cooperation.

9. *Complete spin-off*. If both strategic importance and operational relatedness of a new venture are negligible, then complete spin-off of a new venture is the most appropriate thing to do.

Corporate venturing

Corporate venturing is one of the large organizations' entrepreneurial transformation forms. Key success factor to investing in business start-up and development of small enterprises by large corporations is a good strategic fit between venturing and venture companies. Strategic fit is differently achieved: through strong relationships with core competencies of the venturing company, or through acquiring skills, technologies, markets, etc. that complement strategic direction of the venturing company – i.e. when requirements for synergy effects are met [5, p. 492].

Corporate venturing is defined by two characteristics. These are *investment objective* and *degree of linkage* between the venturing company and the start-up company's operations. Although new venture's investment objectives may be different, they can be brought down to two key investment objectives. The first is strategic, made to increase revenues or profits of the core business. A

company making a strategic investment seeks to exploit synergies by investing in a new venture. The other objective is financial, wherein a company is looking for attractive return on investment.

The second defining characteristic of corporate venturing is the degree to which companies in the investment portfolio are linked to the investing company's current operational capabilities – that is, its resources and processes. For example, a start up might make use of manufacturing plants, distribution channels or technology of the investing company.

Characteristics outlined above are key dimensions of the conceptual framework for assessing corporate venturing, shown in Table 2.

As Table 2 shows, given the investment objective and the degree of linkage between the start-up and operational capability of the venturing company, there are four types of corporate venturing, their major features being the following [9, pp. 94-98]:

Driving investments. This type of investment is characterized by a strategic rationale and tight links between a start-up and operations of the investing company. For example, in the beginning of the 2000s Microsoft invested over \$1 billion in start-up firms that developed different Internet services, expecting the firms to set standards for the next generation of Internet service providers. Disadvantages of driving investments surface during changes in corporate strategy, as they disrupt strategic transformation.

Enabling investments. In this mode of investing a company makes investments for strategic reasons, but does not couple the new venture tightly with its own operations. The theory behind this type of investment is in the notion of complementarity between the new venture and the investor. By investing in development

Table 2: Mapping corporate investments in new ventures

		Corporate investment objective	
		Strategic	Financial
Link to operational capability	Tight	Driving Advances strategy of current business	Emergent Allows exploration of potential new businesses
	Loose	Enabling Complements strategy of current business	Passive Provides financial returns only

Source: [9, p. 95]

of its suppliers, custom and third-party developers, a company stimulates demand for its own offerings. For example, in the early 1990s Intel started investing in start-ups whose products – such as video, audio and graphics hardware and software – used microprocessors, and thereby stimulated demand for its own products.⁵ Success of these investments depends on the ability of start-ups to achieve considerable sales growth of its own products.

Emergent investments. Companies make this kind of investments in start-ups that have tight links to its operating capabilities but that offer little to contribute to its current strategic objectives. However, if the business environment shifts or if a company's strategy changes significantly, new ventures might become strategically valuable to the investor. This kind of corporate venturing might be used for investing in start-ups that will develop a market for the investor. Instead of exploring the potential of new markets, which is often difficult for companies focused on serving their current markets, the company invests in a start-up that will serve a new market. Immediate benefits of such investments are financial, and if new market expansion is successful, then the ultimate return on investment may result from exercising strategic options. As many emergent investments never become important to a company's strategy, it is important to achieve a balance between financial objectives and strategic potential for investing in start-ups.

Passive investments. Companies led by financial objectives make this kind of investments, investing in new ventures that are not connected to their own operating capabilities. Consequently, the investor lacks the means to actively improve its own business through these investments. In that sense, the investor is equal to any other investor in the private equity market who strives to generate high investment yield, but this opens a discussion whether it would be the best use of shareholders' funds.

Corporate venturing in strategically important small firms is mutually beneficial [5, p. 492]. Advantages for small firms include easy access to resources – not only financial, but also managerial, advisory, etc., easy access

to markets, technologies, and so on. Advantages for large companies include the following:

- Knowledge and innovation import;
 - External sources of finance may be easier to access;
 - Easier creation of semi-autonomous operational units with their own cultures, incentives, business models, etc., and
 - Involvement of highly motivated staff in the process.
- Disadvantages for investors include:
- Requires investments, normally equity;
 - Requires investment in venture mechanisms that set up management, networks, evaluation and generate information, etc., and
 - Lack of total control over a new venture.

This form of entrepreneurial transformation might be used to spin-off business potentials that are the result of the company's research and that are distinct from the company's core business. Finally, some corporations have separate investment funds used to address other, non-economical issues such as, for example, new job openings in areas where the company has contributed to layoffs. These activities, however, are not motivated by the need for entrepreneurial transformation of a company, but the need to achieve other, mainly social objectives.

Conclusion

Although up to two or three decades ago Schumpeter's distinction of entrepreneurial and administrative ("bureaucratic") economic activity seemed convincing and apparent, recent economic development turbulence has challenged these findings that no longer appear compelling and obvious. Not every small new company needs to be innovative – i.e. entrepreneurial, and not every corporation is necessarily a bureaucratic organization (i.e. an antipode to entrepreneurial organization). An entrepreneurial organization with its growth does not unconditionally retain its entrepreneurial spirit, just as lack of entrepreneurial focus is not necessarily an outcome of company's developmental growth. As an organization grows, the loss of entrepreneurial spirit can be postponed or prevented, or retrieved if lost. It is largely accepted that entrepreneurial behavior is a company's growth factor. Findings

⁵ By the end of that decade Intel made over 800 such investments. See: [9, p. 95].

in this paper have demonstrated that there are several types of corporate entrepreneurship and that entrepreneurial transformation entails profound and complex changes in organizational structure. A growing need for entrepreneurial transformation will ultimately require new organizational forms and wider range of applicable solutions.

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