



StreetSmart Call Centre

Leadership through Breakthrough Business Solutions

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Corporate Entrepreneurship & the Imperative to Innovate

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ABSTRACT

This paper argues that corporate entrepreneurship needs to be encouraged and developed for successful adaptation to occur when an organisation in a mature industry is facing a hostile environment. This paper argues that the post-GFC environment will require corporate entrepreneurship, with a strong emphasis on innovation, to re-establish strong market positions. It identifies the key obstacles confronting an organisation wishing to encourage corporate entrepreneurship. Finally, possible solutions to some of these obstacles are outlined in the paper.

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1. Corporate Entrepreneurship & the Imperative to Innovate: Introduction

The hypothesis of this paper is that high-performing organisations effectively implement revolutionary change when confronted with a crisis. The literature cited for this topic reveals re-occurring themes for successful adaptation. These themes are closely linked to the characteristics of an entrepreneur. The relationship between the two will be outlined in this paper. This paper argues that the post Global Financial Crisis (GFC) environment requires companies to encourage corporate entrepreneurship with a strong emphasis on innovation to regain strategic market positions over their competitors.

Research reveals that the majority of organisations facing a crisis are unsuccessful in implementing effective change for adaptation. Again, many of the reasons cited in the literature for unsuccessful adaptation can be linked to the obstacles evident for cultivating corporate entrepreneurship in organisations. These general obstacles will be outlined in the paper.

Finally, some solutions will be offered for these obstacles that have already been identified by the author in turnaround cases. Examples will be provided by actual organisations that have implemented effective adaptation when confronted with a crisis of sorts. These examples will be related to the role of corporate entrepreneurship.

2. Corporate Entrepreneurship and Adaptation

The central difference between the entrepreneur that commences an enterprise and the corporate entrepreneur is ownership. The corporate entrepreneur is unable to reap the same monetary rewards that an owner entrepreneur does, but neither are the risk levels the same. Both types of entrepreneurs bear similar risk—reputation and career. However, the owner of an enterprise often bears the financial risk as well—personal money, house, and assets. There are advantages and disadvantages for each type of entrepreneur, but the key difference lies in the ownership and the risk/reward dichotomy that exists with ownership and non-ownership.

Nevertheless the corporate entrepreneur does share many of the same characteristics of the owner entrepreneur. The central shared characteristics are:

- 3. Strategies are growth orientated**
- 4. Opportunist**
- 5. Innovate for profit**
- 6. Active planner**
- 7. Pro-active**
- 8. Generalist**
- 9. Creative**
- 10. Ambitious**
- 11. Unafraid of change**

12. Initiate change

The primary role of the corporate entrepreneur is to initiate and help implement organisational change in order to maintain or rejuvenate the competitive advantage of the organisation in a local or global market. There are three types of corporate entrepreneurial innovation as identified by Jennings:

- a. Technological
- b. Administrative
- c. Ancillary

These innovations can help an organisation adapt to its environment. When an organisation exists in a mature industry, characterised by flattened growth and due to increased competition, the need for entrepreneurial activity becomes paramount. In order to effectively adapt to this hostile environment, the organisation needs to implement internal changes to its organisational elements in order to cultivate and encourage corporate entrepreneurship. Research done by Slevin and Covin shows that hostile environments elicit entrepreneurial behaviour.¹ They found that high performing organisations often respond to environmental hostility by aggressively trying to gain or maintain a competitive advantage through entrepreneurial actions. They established that an organic structure was the most suitable for an organisation confronted with a hostile environment. This organic structure permitted fast reactions within a hostile environment which was central to effective adaptation. This structure allowed an organisation to have:

1. Less formality
2. Open communication
3. Substantial capacity for adaptation

Slevin and Covin concluded that high organisational performance was dependant upon the organisations ability to simultaneously adjust organisational system elements, including its entrepreneurial position and structure, into a congruent pattern. From the literature cited on organisational adaptation to hostile environments certain re-occurring themes emerge as to the key areas of focus required for effective adaptation. The primary areas of focus for effective organisational change are:

1. Structure
2. Strategy choice
3. Ability to analyse and respond to changing environment
4. Growth orientated
5. Values, beliefs and the quality of people in the organisation
6. Competitive advantage

¹ Slevin, D.P. & Covin, J.G. (1990). Juggling Entrepreneurial Style and Organisational Structure—How to Get Your Act Together. *Sloan Management Review*. Winter: 43-53

7. Management of change enablers (entrepreneurs/technology) and resources
8. Innovation and creativity
9. Empowerment
10. Information flow

The corporate entrepreneur is instrumental in effective organisational adaptation in a hostile environment. They possess many of the essential qualities required by organisations in order to survive in this environment. The corporate entrepreneur is innovative and growth orientated and is a change agent that seeks out opportunities that lead to competitive advantage. The exploitation of opportunities is closely linked to adaptation and both the corporate entrepreneur and the organisation confronted with a hostile environment share the same logic. The behaviour of entrepreneurs, identified in Jennings, is similar in many respects to the behaviour required by organisations to achieve effective adaptation.²

Most organisations are not effective in implementing change for adaptation when confronted with a hostile situation. This affects their capacity to survive and often leads to bankruptcy, a merger, or acquisition. Similarly, organisations are often confronted with obstacles for effective implementation of a culture conducive to corporate entrepreneurship. The next section examines some of central obstacles identified in the literature.

3. Key Obstacles to Corporate Entrepreneurship

Entrepreneurship in a corporation is often cited as a contradiction in terms. Entrepreneurship is a difficult process that requires the utilisation of many resources—education, time, money, creativity. To be effective it requires a unique balance between resources and power relationships. Whether individual or group, owner entrepreneur(s) have more control over the implementation process of entrepreneurship. Effective implementation of entrepreneurship in the corporate area is substantially more difficult to accomplish. Employees in the corporate environment often possess many of the attributes possessed by the owner entrepreneur but are unable to implement their ideas due to obstacles existent in the corporate environment. The key obstacles identified from the literature are:

1. Structures are too hierarchical and mechanistic
2. Organisational values and beliefs are not conducive to entrepreneurial activity
3. Centralisation of decision making
4. Specialisation
5. Leaders do not encourage or support entrepreneurial behaviour
6. Rewards and sanctions are not aligned to new duties
7. Inability to define possible threatening environment

² Jennings, D.F. *Multiple Perspectives of Entrepreneurship: Text, Readings, and Cases*. South-Western Publishing Co. USA. 1994. PP 122-182

8. The mechanisms to monitor and analyse the environment are not in place
9. Industry structure is bound by strict rules and regulations
10. Management style is too bureaucratic
11. Power relationships within a company are too territorial and politically based

Many of these obstacles evolve over a period of time as an organisation undergoes development. As an organisation matures from birth to decline, its contextual needs change. Originally, the founders of the organisation may have been entrepreneurial to establish the organisation but as the organisation matures, gets larger and more complex, it requires a manager to formalise processes and control resources. The organisation often becomes bureaucratic and loses its entrepreneurial characteristics. There is generally incremental growth during this period until the environment catches up with the organisation and crisis events trigger the need to change.

At this stage an organisation realises that it may have lost its competitive advantage in the market place; and commences the implementation of change programs in order to re-vitalise their competitive advantage. The problem at this point is that the company has changed the very fabric of its being to that of a bureaucratically managed and hierarchically structured entity. Its core values and reward systems are antiquated, yet based on solid foundations. When growth has flattened out, an organisation is forced into a situation whereby it must re-invent itself in order to survive. The company and its people require essentially the same characteristics that were necessary when the company was first born: entrepreneurial activity.

The obstacles are difficult to overcome because so many aspects of the organisation have to change in order to be effective. Organisations find it difficult to establish a system for encouraging entrepreneurship and thus face difficulty in adapting to a hostile environment. They are unable to rejuvenate their competitive advantage and proceed to decline. ***Hence, corporate entrepreneurship is closely linked with the growth imperative of an organisation and its ability to survive.***

The next section examines unique obstacles that organisations in Australia have to contend with which differ to their overseas counterparts.

The final section examines some of the solutions available to organisations experiencing obstacles for creating an environment conducive to corporate entrepreneurship.

4. Possible Solutions

My research examines how organisations can manipulate certain variables to be able to effectively adapt to hostile environments. The manipulation of these variables is closely linked to the manner in which organisations can encourage corporate entrepreneurship. The key solutions to the obstacles are:

1. **Need to change culture to encourage entrepreneurship**—Kanter outlines the need to have a culture of pride and a climate of success. “Success breeds success” and this will raise the level of confidence of employees which will encourage entrepreneurial behaviour.
2. **Change the structure to one which is more organic**—this will permit faster responses to the environment by allowing a free flow of information and ideas. Kanter explains that information is the first power tool for entrepreneurship and it needs to flow freely
3. **Give employees the right information to help shape new attitudes**
4. **Manage creativity**—set up teams to devote time to innovative ideas.
5. **Allow a portion of time for each employee to be innovative.** Have a system in place that develops these ideas into action. Create multiple centres of resources for employees to action their ideas
6. **Increase the level of empowerment to employees.** Kanter identified in his research that giving control to employees in the decision-making process was a hallmark of high performing organisations. Power relationships between people and departments need to be manipulated to action ideas.
7. **Change reward system to encourage entrepreneurship.** Align the reward system with the new duties. Similarly, do not punish employees for failure. Reward people by investing in them.
8. **Teach entrepreneurship through case study method**
9. **Change leadership style to be more informal and supportive of entrepreneurial behaviour**

Organisations clearly need to adjust their internal mechanisms in order to encourage and cultivate corporate entrepreneurship. Similarly, potential corporate entrepreneurs need to adjust to their organisational climate. They must be tenacious and not give up at the first signs of frustration. The corporate entrepreneur needs to appreciate that they can not have the same freedom and flexibility of the owner entrepreneur.

Successful adaptation to crisis events through effective revolutionary change programs provides possible solutions to the barriers that organisations are confronted with. Certain re-occurring themes in turnaround cases reinforce the role of the entrepreneur in re-establishing the competitive advantage for an organisation. Outlined below are four turnaround cases from past climates not too dissimilar to the GFC that feature entrepreneurial behaviour:

Case Study	Crisis Event(s)	Revolutionary Change	Outcome
Robert Frey —owner of Cin-Made: a Cincinnati company that makes mailing tubes (1993)	<ol style="list-style-type: none"> 1. Profits unable to sustain wages and benefits. 2. Employee relations turned them into enemies of the company resulting in strikes and union hostility. 3. Company losing \$30,000 a month 	<ol style="list-style-type: none"> 1. Raise prices and cut expenses 2. Changed job descriptions giving employees empowerment to make key decisions 3. Profit sharing scheme that was directly related to a percentage of gross profits (18%-35%). Employees also shared the risk of bad decisions 4. Forced change on employees 5. Changed culture to that of teamwork and participation 	<ol style="list-style-type: none"> 1. Over a four year period employees received a 36% increase to income via profit sharing 2. Employees routinely monitor work to reduce waste and increase efficiency 3. Absenteeism fell to nearly nil 4. Productivity rose by 30% 5. No increases in fixed wages for 8 years
Timothy Firstahl —CEO and owner of Satisfaction Guaranteed Eateries in Seattle (1993)	<ol style="list-style-type: none"> 1. Declining income, growing expenses and operating profits leading to bankruptcy 2. The Gulf War 3. The recession 	<ol style="list-style-type: none"> 1. Reduction of overheads by eliminating corporate headquarters 2. Technology revolution used to restructure information processing and reporting 3. 100% power and responsibility given to front line managers—empowerment 4. Collaborative weekly meetings to train and share ideas and problems 5. Keeping employees comfortable during downsizing 6. A bonus incentive plan based on a percentage of cash flow 7. Re-education of 	<ol style="list-style-type: none"> 1. Cash flow went from a negative to positive for a 200% turnaround in 2 years 2. The successful concept led to selling franchises of the restaurant 3. Reduction in wastage and theft from employees 4. Reduction in operating expenses 5. Reduction in bureaucracy

		<p>employees on the issue of income to cost</p> <p>8. Invention of new menu items and a change of décor.</p>	
<p>John Thorbeck— CEO of G.H. Bass and Company: a shoe manufacturer in Maine. (1987-1992)</p>	<p>1. Factory closures (6 of 8)</p> <p>2. Big losses (\$72 million)</p> <p>3. Declining sales</p> <p>4. Plummeting morale</p>	<p>1. Cut \$9.3 million in costs</p> <p>2. Liquidated \$21 million in inventory</p> <p>3. Changed remuneration of sales force from commission to salary and bonus</p> <p>4. Rationalised design patters (from 620 to 200)</p> <p>5. Marketing innovation— launched a new line at twice the original price of past shoes</p> <p>6. Creating believers out of employees in company vision and community. This was achieved by reviving the values inherent in the company's history (culture).</p>	<p>1. From a loss of \$46 million in 1986 with sales of \$150 million to a \$16 million profit on sales of \$180 million in 1988.</p> <p>2. A coherent community working for a higher purpose (values)</p> <p>3. Increased level of competence amongst workers</p>
<p>Rodney Adler—CEO of FAI insurance in Australia (1992)</p>	<p>1. Death of the founder: Larry Adler—loss of core competitive advantage</p> <p>2. Stock market crash of 1987</p> <p>3. Plummeting profit over 3 progressive years leading to a \$144 million loss in 1991</p> <p>4. The recession in the early 90's</p>	<p>1. Employment of Roy Ellis— General Manager—new leadership style and new perspective</p> <p>2. Changed culture from sales driven to profit driven— achieved by retrenching staff and employing new ones with new vision</p> <p>3. Increased skill levels and knowledge among employees through training and tertiary institutions</p> <p>4. Changed information technology to upgrade information flow</p> <p>5. Commitment to professionalism and innovation</p> <p>6. Regular communication with staff to sell the change</p>	<p>1. Operating loss reduced to \$49.3 million in 1992—a 76% improvement on operating loss from previous year</p> <p>2. Better management of resources due to better information</p> <p>3. Raised levels of competencies amongst employees</p> <p>4. Employees now make decisions</p> <p>5. Employees are now pro-active in company development rather than reactive</p>

These case studies illustrate the link between entrepreneurial behaviour and effective organisational adaptation in hostile environments. Re-occurring themes emerge from the case studies that concur with the solutions outlined to the obstacles to corporate entrepreneurship:

1. The effective and innovative **management of finances, products, and markets** is central to effective adaptation
2. The development of new products and **new innovative marketing strategies**
3. A **change in leadership style and/or leader** is necessary for revolutionary change
4. A **change in organisational culture focusing on values, commitment, trust, professionalism and innovation** is essential for successful revolutionary change
5. **Employee empowerment and reward system need to be aligned and developed around company performance**
6. **Technology and information** play a key role in this form of adaptation
7. **Choice of strategy needs to be closely aligned to** the new environment facing the organisation
8. **Speed of change and selling the change to employees** is important to achieving effective revolutionary change
9. **Education and skill level of employees needs to be raised** to meet the needs of this type of change
10. **Regular communication about the changing environment and sharing of ideas** is required for effective long-term revolutionary change
11. **A reduction in bureaucracy and an innovative approach to administration** is required
12. **Effective revolutionary change programs** re-establish their competitive advantage

The case studies illustrate the need to innovate to adapt. A tenable conclusion may be that an entrepreneurial environment which fosters entrepreneurial activity is equated to an organisation's adaptation ability.

5. Conclusion

Corporate entrepreneurship is a crucial ingredient to an organisation's ability to adapt. The corporate entrepreneur can aid an organisation in retaining or re-establishing its competitive advantage. Without systems in place to foster and encourage corporate entrepreneurship, an organisation may find itself losing highly skilled individuals due to frustration. These people leave the organisation and set up their own businesses. These new businesses can create increased competition for the corporate organisation and accelerate the loss of their competitive advantage in the market place.

Essential to an organisation's survival is the cultivation of an environment which is conducive to entrepreneurial activity. As an organisation matures and reaches a level where growth flattens out or begins to decline, an organisation needs to adopt the qualities it once possessed when first created. The need to re-invent itself and re-establish its competitive advantage requires the organisation to become more entrepreneurial. The post-GFC environment has been identified as one which will require strong entrepreneurial actions that will need to be innovative.

There are inherent problems associated with changing the internal mechanisms of the organisation to promote entrepreneurial behaviour. Most organisations are unsuccessful at implementing such a change because it often means going against the grain of what an organisation has been doing during its incremental growth period. The challenge is large in magnitude, yet crucial if the organisation is to adapt to a changing hostile environment. Innovation is inextricably linked to an organisation's ability to adapt. Turnaround cases illustrate the need for entrepreneurs in order to survive the various changes they implement, giving the organisation its competitive edge once more.



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