Managing Innovation and Fostering Corporate Entrepreneurship

>chapter objectives

After reading this chapter, you should have a good understanding of:

- The importance of implementing strategies and practices that foster innovation.
- The challenges and pitfalls of managing corporate innovation processes.
- The role of product champions and exit champions in internal corporate venturing.
- How independent venture teams and business incubators are used to develop corporate ventures.
- How corporations create an internal environment and culture that promote entrepreneurial development.
- How an entrepreneurial orientation can enhance a firm’s efforts to develop promising corporate venture initiatives.
To remain competitive, established firms must continually seek out opportunities for growth and new methods for strategically renewing their performance. Changes in customer needs, new technologies, and shifts in the competitive landscape require that companies continually innovate and initiate corporate ventures in order to compete effectively. This chapter addresses how entrepreneurial activities can be an avenue for achieving competitive advantages.

In the first section, we address the importance of innovation in identifying venture opportunities and strategic renewal. Innovations can take many forms, including radical breakthrough innovations as well as incremental innovative improvements, and be used either to update products or renew organizational processes. We discuss how firms can successfully manage the innovation process. Impediments and challenges to effective innovation are discussed and examples of good innovation practices are presented.

We discuss the unique role of corporate entrepreneurship in the strategic management process in the second section. Here we highlight two types of activities corporations use to remain competitive—focused and dispersed. New venture groups and business incubators are often used to focus a firm’s entrepreneurial activities. In other corporations, the entrepreneurial spirit is dispersed throughout the organization and gives rise to product champions and other autonomous strategic behaviors that organizational members engage in to foster internal corporate venturing.

In the final section we describe how a firm’s entrepreneurial orientation can contribute to its growth and renewal as well as enhance the methods and processes strategic managers use to recognize opportunities and develop initiatives for internal growth and development. The chapter also evaluates the pitfalls that firms may encounter when implementing entrepreneurial strategies.
Companies often grow by commercializing new technologies. This is one of the most important paths to corporate entrepreneurship. But technologies change and yesterday’s exciting innovation eventually becomes today’s old news. Consider the case of Polaroid, a company that capitivated the marketplace with its instant photography technology and grew to become a multibillion dollar enterprise on the strength of that innovation.1

Polaroid Corporation’s founder, Edward Land, was a Harvard dropout. He was also a genius in optics, chemistry, and engineering who started his Cambridge, Massachusetts, company in 1937 to focus on sunglasses and other technologies that polarize light. During World War II, the company built infrared filters for gunsights and dark-adaptation goggles. It was after the war, however, that one of Land’s innovations struck gold. In 1947 he introduced a single-step photographic process that would develop film in 60 seconds and launched the Land Camera. Over the next 30 years, the camera and its film evolved into the Polaroid One-Step, and sales surged to $1.4 billion by 1978.

In the process, Polaroid became one of the most admired companies and a best bet among stock pickers. It was a member of the “Nifty Fifty,” a group of companies known for their innovative ideas whose stocks regularly traded at 40 or more times earnings. In 1991 it won a huge patent infringement lawsuit against rival Eastman Kodak, which had to pay Polaroid $925 million. The company also continued to launch new products using its instant film technology in a variety of different cameras with updated features.

On the surface, Polaroid seemed to be the picture of success. Land had been hailed as a new breed of corporate leader—both technically savvy and entrepreneurial. But by 1991, the year Land died, the company he built was unraveling. Instead of using the cash from the Kodak lawsuit to pay down its heavy debt, Polaroid spent the money to develop a new camera—the Captiva—which flopped in the marketplace. A few years later the I-Zone Pocket Camera, a product targeted at adolescents, had weak sales because the image quality was inconsistent and replacement film was considered too expensive for teens. Meanwhile, internally, Polaroid was spending 37 percent of its sales on administrative costs, compared to Kodak’s 21 percent. Even though the company continued to sell millions of cameras each year—a record 13.1 million in 2000—its strength was deteriorating.

Polaroid’s most serious problems began when it failed to get on the digital photography bandwagon. Rather than make the move into digital, Polaroid decided to stick with its proprietary technology. Once Polaroid realized the extent of the digital photography trend, it was too late. It eventually introduced digital cameras but they were often ranked low in consumer ratings. Polaroid even developed digital printing technologies, called Opal and Onyx, designed to deliver high resolution digital images. But because of its weakened financial state, it couldn’t get the funding from investors to advertise and develop them. By 2001, it was in real trouble. Its debt was $950 million, it laid off 2,950 employees—35 percent of its workforce—and began missing interest payments to bondholders. In October 2001, it filed for Chapter 11 bankruptcy protection. Sale of its stock, which had traded as high as $60 in July 1997, was halted at 28 cents per share on the New York Stock Exchange.

The final blow to its reputation came in 2005 when it was announced, as part of a deal to sell Polaroid to a Minnesota-based conglomerate, that thousands of former Polaroid employees would have their pensions wiped out. Retirees and ex-employees, who also lost their health coverage and life insurance, received a total of just $47 for their years of service, while four former Polaroid executives split a $30 million dollar settlement among them!2

What Went Wrong at Polaroid? Considered by many to be one of the first great research-based companies, Polaroid failed largely because it lost its ability to effectively innovate and launch new products. Many factors contributed to its downfall. Clearly, its failure to respond quickly to the digital photography phenomenon caused a serious setback. But the roots of the problem were deeper. As one writer put it, “They overestimated the value of their core business.” That is, Polaroid’s overconfidence in its early success prevented it from envisioning a purpose beyond its instant
imaging capability. This phenomenon is sometimes referred to as "the innovator’s dilemma"—firms become so preoccupied with meeting current needs that they fail to take steps to meet future needs. This dilemma inhibited Polaroid’s ability to change and affected every aspect of its business:

- Even though sales of its core products were strong, it lost touch with its customers. As a result, several of its innovations failed in the marketplace.
- It did not have a long-term strategy for financing growth. Because it relied heavily on investors to finance new product initiatives, when one failed, it created cash flow problems. To regain profitability, Polaroid would offer more shares and bonds to investors, which, in turn, devalued the stock and created even more indebtedness. Eventually, investors turned away.
- Buoyed by revenues that grew annually for over 30 years, it failed to control personnel costs and was weighed down by too many employees. Eventually these expenses overtook its sales.

In short, Polaroid stopped thinking and acting like an entrepreneurial firm. The Polaroid brand is still loved by many, and its products can still be found in the marketplace. (In 2002, Polaroid’s assets were purchased by OEP Imaging Operating Corporation and, as part of the agreement, OEP changed its name to Polaroid Corporation.) But the company that had once changed the world of photography was itself unable to make the changes necessary to remain viable. As a result of its lack of vision and failure to change, what had once been a leading innovator and top financial performer slowly fizzled out.

Managing change, as we suggested in Chapter 11, is one of the most important functions performed by strategic leaders. The transformative activity of bringing organizations “from what they are to what the leader would have them become” requires fresh ideas and a vision of the future. Most organizations want to grow. To do so, they must expand their product offering, reach into new markets, and obtain new customers. Sometimes profitability can be increased by streamlining processes and operating more efficiently. These activities inevitably involve change, and a firm’s leaders must be effective change agents.

What options are available to organizations that want to change and grow? This chapter addresses two major avenues through which companies can expand or improve their business—innovation and corporate entrepreneurship. These two activities go hand-in-hand because they both have similar aims. The first is strategic renewal. Innovations help an organization stay fresh and reinvent itself as conditions in the business environment change. This is why managing innovation is such an important strategic implementation issue. The second is the pursuit of venture opportunities. Innovative breakthroughs, as well as new product concepts, evolving technologies, and shifting demand, create opportunities for corporate venturing. In this chapter we will explore these topics—how change and innovation can stimulate strategic renewal and foster corporate entrepreneurship. First we turn to the challenge of managing innovation.

>>Managing Innovation

One of the most important sources of growth opportunities is innovation. Innovation involves using new knowledge to transform organizational processes or create commercially viable products and services. The sources of new knowledge may include the latest technology, the results of experiments, creative insights, or competitive information. However, it comes about, innovation occurs when new combinations of ideas and information bring about positive change.
Rubbermaid: Building Advantages through Marketing Innovations

Rubbermaid is a consistent winner of innovation kudos, including the Chicago Sun-Times Innovation Awards and Retail Merchandiser’s 2002 Marketing Innovation award winner in two categories. Yet Rubbermaid’s innovations would rarely be considered “high-tech.” Although the company (which consolidated in 1999 to form Newell Rubbermaid, Inc.) is known for its synthetic rubber materials, it is the application of those materials to develop innovative products that is responsible for its winning strategies. Here are some examples:

**Tool Tower**—Consumers have been crying out for help in organizing their garages, according to Adrian Fernandez, director of product management for Rubbermaid’s Home Products unit. In fact, storing tools efficiently is the number one complaint by homeowners about garages. The Tool Tower, a simple and efficient plastic rack designed to hold long- and short-handle tools in one place, was a welcome solution. It is easily assembled, takes up little space, and is much safer than hanging tools on nails or racks.

**High-Heat Scraper**—While on site at one of its restaurant customers, a Rubbermaid business team noticed that chefs preferred synthetic rubber scrapers instead of metal spatulas when using nonstick cookware. But the scrapers quickly warped from the heat and lost their shape. Based on this experience, a new scraper of pliable synthetic rubber was developed with chefs in mind. It still did not scratch but could sustain temperatures as high as 500 degrees Fahrenheit.

**Hardware Blue**—Many products are tested in the company’s “Everything Rubbermaid” experimental lab stores. Rubbermaid noticed that more and more women were buying tool boxes and workshop organizers. They wondered how women shoppers liked their traditional colors—yellow, black, and gray. Through focus groups, they identified a new color, “Hardware Blue,” that outsold all other colors and appealed to both men and women.

Clearly, the high-heat scraper required technological know-how to develop. But the impetus for it came from proactive customer contact, and the product itself was simple. As can be seen from these examples, Rubbermaid is concerned not only with technologically based innovations but also with marketing innovations.

The emphasis on newness is a key point. For example, for a patent application to have any chance of success, one of the most important attributes it must possess is novelty. You can’t patent an idea that has been copied. This is a central idea. In fact, the root of the word innovation is the Latin novus, which means new. Innovation involves introducing or changing to something new.5

Among the most important sources of new ideas is new technology. Technology creates new possibilities. Technology provides the raw material that firms use to make innovative new products and services. But technology is the only source of innovations. There can be innovations in human resources, firm infrastructure, marketing, service, or in many other value-adding areas that have little to do with anything “high-tech.” Strategy Spotlight 12.1 highlights three innovations by the Rubbermaid Corporation that met customer needs and generated sales but were relatively low-tech.

As the Rubbermaid example suggests, innovation can take many forms. Next we will consider two frameworks that are often used to distinguish types of innovation.

**Types of Innovation**

Although innovations are not always high-tech, changes in technology can be an important source of change and growth. When an innovation is based on a sweeping new technology,
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It often has a more far-reaching impact. However, sometimes even a small innovation can add value and create competitive advantages. Innovation can and should occur throughout an organization—in every department and all aspects of the value chain.

One way to view the impact of an innovation is in terms of its degree of innovativeness, which falls somewhere on a continuum that extends from incremental to radical.6

- **Radical innovations** produce fundamental changes by evoking major departures from existing practices. These breakthrough innovations usually occur because of technological change. They tend to be highly disruptive and can transform a company or even revolutionize a whole industry. They may lead to products or processes that can be patented, giving a firm a strong competitive advantage. Examples include electricity, the telephone, the transistor, desktop computers, fiber optics, artificial intelligence, and genetically engineered drugs.

- **Incremental innovations** enhance existing practices or make small improvements in products and processes. They may represent evolutionary applications within existing paradigms of earlier, more radical innovations. Because they often sustain a company by extending or expanding its product line or manufacturing skills, incremental innovations can be a source of competitive advantage. They increase revenues by creating a new marketplace offering or reduce costs by providing new capabilities that minimize expenses or speed productivity. Examples include frozen food, sports drinks, steel-belted radial tires, electronic bookkeeping, shatterproof glass, and digital telephones.

Some innovations are highly radical; others are only slightly incremental. But most innovations fall somewhere between these two extremes. Exhibit 12.1 shows where several innovations fall along the radical–incremental continuum.

Another distinction that is often used when discussing innovation is between process innovation and product innovation.7 *Product innovation* refers to efforts to create product designs and applications of technology to develop new products for end users. Recall from Chapter 5 how generic strategies were typically different depending on the stage of the industry life cycle. Product innovations tend to be more radical and are more common during the earlier stages of an industry’s life cycle. As an industry matures, there

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**Exhibit 12.1: Continuum of Radical and Incremental Innovations**
are fewer opportunities for newness, so the innovations tend to be more incremental. Product innovations are also commonly associated with a differentiation strategy. Firms that differentiate by providing customers with new products or services that offer unique features or quality enhancements often engage in product innovation.

Process innovation, by contrast, is typically associated with improving the efficiency of an organizational process, especially manufacturing systems and operations. By drawing on new technologies and an organization’s accumulated experience (Chapter 5), firms can often improve materials utilization, shorten cycle time, and increase quality. Process innovations are more likely to occur in the later stages of an industry’s life cycle as companies seek ways to remain viable in markets where demand has flattened out and competition is more intense. As a result, process innovations are often associated with overall cost leader strategies, because the aim of many process improvements is to lower the costs of operations.

As you can see from this discussion of different types of innovation, the innovation process itself has numerous strategic implications. Innovation is a force in both the external environment (technology, competition) and also a factor affecting a firm’s internal choices (generic strategy, value-adding activities). Nevertheless, innovation can be quite difficult for some firms to manage, especially those that have become comfortable with the status quo. Next, we turn to the challenges associated with successful innovation.

Challenges of Innovation

Innovation is essential to sustaining competitive advantages. Recall from Chapter 3 that one of the four elements of the Balanced Scorecard is the innovation and learning perspective. The extent and success of a company’s innovation efforts are indicators of its overall performance. As management guru Peter Drucker warned, “An established company which, in an age demanding innovation, is not capable of innovation is doomed to decline and extinction.” To put it simply, in today’s competitive environment, most firms have only one choice: “Innovate or die.”

As with change, however, firms are often resistant to innovation. Only those companies that actively pursue innovation, even though it is often difficult and uncertain, will get a payoff from their innovation efforts. But managing innovation is challenging. As former Pfizer chairman and CEO William Steere puts it: “In some ways, managing innovation is analogous to breaking in a spirited horse. You are never sure of success until you achieve your goal. In the meantime, everyone takes a few lumps.”

What is it that makes innovation so difficult? Clearly the uncertainty about outcomes is one factor. Companies that keep an eye on their bottom line (and most of them do!) are often reluctant to invest time and resources into activities with an unknown future. Another factor is that the innovation process involves so many choices. These choices present five dilemmas that companies must wrestle with when pursuing innovation:

- **Seeds versus Weeds.** Most companies have an abundance of innovative ideas. They must decide which of these is most likely to bear fruit—the “Seeds”—and which should be cast aside—the “Weeds.” This is an ongoing dilemma that is often complicated by the fact that some innovation projects require a considerable level of investment before a firm can fully evaluate whether they are worth pursuing. As a result, firms need a mechanism with which they can choose among various innovation projects.

- **Experience versus Initiative.** Companies must decide who will lead an innovation project. Senior managers may have experience and credibility but tend to be more
risk averse. Midlevel employees, who may be the innovators themselves, may have more enthusiasm because they can see firsthand how an innovation would address specific problems. As a result, firms need to support and reward organizational members who bring new ideas to light.

- **Internal versus External Staffing.** Innovation projects need competent staffs to succeed. People drawn from inside the company may have greater social capital and know the organization’s culture and routines. But this knowledge may actually inhibit them from thinking outside the box. Staffing innovation projects with external personnel requires that project managers justify the hiring and spend time recruiting, training, and relationship building. As a result, firms need to streamline and support the process of staffing innovation efforts.

- **Building Capabilities versus Collaborating.** Innovation projects often require new sets of skills. Firms can seek help from other departments and/or partner with other companies that bring resources and experience as well as share costs of development. However, such arrangements can create dependencies and inhibit internal skills development. Further, struggles over who contributed the most or how the benefits of the project are to be allocated may arise. As a result, firms need a mechanism for forging links with outside parties to the innovation process.

- **Incremental versus Preemptive Launch.** Companies must manage the timing and scale of new innovation projects. An incremental launch is less risky because it requires fewer resources and serves as a market test. But a launch that is too tentative can undermine the project’s credibility. It also opens the door for a competitive response. A large-scale launch requires more resources, but it can effectively preempt a competitive response. As a result, firms need to make funding and management arrangements that allow for projects to hit the ground running and be responsive to market feedback.

These dilemmas highlight why the innovation process can be daunting even for highly successful firms. Strategy Spotlight 12.2 addresses the challenges and pitfalls that Microsoft faces in its efforts to be a strong innovator. How can companies successfully address these innovation challenges? Next, we consider three steps that firms can take to manage the innovation process.11

**Defining the Scope of Innovation**

Firms must have a means to focus their innovation efforts. By defining the “strategic envelope”—that is, the scope of a firm’s innovation efforts—firms ensure that their innovation efforts are not wasted on projects that are highly uncertain or outside the firm’s domain of interest. Strategic enveloping defines the range of acceptable projects. As Alisair Corbett, an innovation expert who directs the Toronto office of the global consulting firm Bain & Company, recently said, “One man’s radical innovation is another man’s incremental innovation.”12 Thus, a strategic envelope creates a firm-specific view of innovation that defines how a firm can create new knowledge and learn from an innovation initiative even if the project fails. Although such limitations might seem overly constraining, they also give direction to a firm’s innovation efforts, which helps separate seeds from weeds and build internal capabilities.

One way to determine which projects to work on is to focus on a common technology. Then, innovation efforts across the firm can aim at developing skills and expertise in a given technical area. Another potential focus is on a market theme.
STRATEGY SPOTLIGHT

Microsoft's Innovation Challenges

You would think that Microsoft, the dominant software seller in the world with a $6.8 billion annual research and development budget, would be a major innovator. Instead, innovation seems to be Microsoft's Achilles' heel. From its earliest days, Microsoft has had far more success as an imitator than an innovator. Despite having well-funded research labs at its Redmond, Washington, headquarters, Microsoft has little to show for years of efforts to come up with the next big breakthrough innovation. Why is Microsoft so innovation-challenged?

- **Innovation is hard.** There is no doubt that Microsoft is working hard at it. From 2000 to 2005, Microsoft acquired 2,188 patents to protect its researchers' work. But creating a commercially viable breakthrough innovation such as the Web browser (created by Netscape), the streaming media player (by RealNetworks) or interactive television (TiVo) is not easy. In many cases, it is more about luck and timing than money, dedication, and brilliance.

- **Bigger isn't better.** Large companies simply find it more difficult than smaller ones to sustain rapid growth through innovation. Good ideas are scarce everywhere and most new innovations take a few years to get off the ground. Because of Microsoft's sheer size, the contribution that a new product can make is relatively small. For example, if Microsoft had matched Google's recent growth record, that business activity would have added only 4 percent to Microsoft's top line.

- **Defense is easier.** Most of Microsoft's research efforts go to helping it sustain its strong leadership in software products such as MS Office. Of every dollar it spends on research and development (R&D), "probably something on the order of 90 percent is directed in line, or in service of, the existing business groups," according to Craig Mundie, Microsoft's co-chief technology officer. In this respect, Microsoft is a victim of "the innovator's dilemma"—spending so much more time protecting its established lines of business and satisfying existing customers that it misses opportunities to make breakthroughs.

Microsoft continues to support innovation and its breakthrough product may come any day. But even its new project, the second generation videogame console known as XBox 360, lags far behind Sony's PlayStation2 in sales and market penetration. Microsoft may not be producing the next big thing, but as a fast follower of technology breakthroughs, it has been highly successful.

Consider how DuPont responded to a growing concern for environmentally sensitive products:

In the early 1990s, DuPont sought to use its knowledge of plastics to identify products to meet a growing market demand for biodegradable products. Over the next decade, it conducted numerous experiments with a biodegradable polyester resin it named Biomax. By trying different applications and formulations demanded by potential customers, the company was finally able to create a product that could be produced economically and had market appeal. Recently, Biomax was certified biodegradable and compostable by the Biodegradable Products Institute, an endorsement that should further boost sales.13

In defining a strategic envelope, companies must be clear not only about the kinds of innovation they are looking for but also the expected results. Therefore, each company needs to develop a set of questions to ask itself about its innovation efforts:

- How much will the innovation initiative cost?
- How likely is it to actually become commercially viable?
- How much value will it add; that is, what will it be worth if it works?
- What will be learned if it does not pan out?

In other words, however a firm envisions its innovation goals, it needs to develop a systematic approach to evaluating its results and learning from its innovation initiatives. Viewing innovation from this perspective helps firms manage the process.14
Managing the Pace of Innovation

Along with clarifying the scope of an innovation by defining a strategic envelope, firms also need to regulate the pace of innovation. An advantage of assessing the extent to which an innovation is radical or incremental is that it helps determine how long it will take for an innovation initiative to realistically come to fruition. The project timeline of an incremental innovation may be six months to 2 years, whereas a more radical innovation is typically long term—10 years or more. Thus, radical innovations often begin with a long period of exploration in which experimentation makes strict timelines unrealistic. In contrast, firms that are innovating incrementally in order to exploit a window of opportunity may use a milestone approach that is more stringently driven by goals and deadlines. As suggested in Chapter 9, this kind of sensitivity to realistic time frames helps companies separate dilemmas temporally so they are easier to manage.

The idea of time pacing can also be a source of competitive advantage, because it helps a company manage transitions and develop an internal rhythm. In their book *Competing on the Edge*, Shona Brown and Kathleen Eisenhardt contrasted time pacing with event pacing. They argue that, by controlling the pace of the innovation process (time pacing), a company can more effectively learn from it and grow internally. In contrast, when outside events, such as shifts in technology or the actions of competitors, determine the pace of innovation (event pacing), then firms lose their ability to manage the change process. Time pacing does not mean the company ignores the demands of market timing. Instead, it means that companies have a sense of their own internal clock in a way that allows them to thwart competitors by controlling the innovation process.

Not all innovation lends itself to speedy development, however. Radical innovation often involves open-ended experimentation and time-consuming mistakes. Further, the creative aspects of innovation are often difficult to time. When software maker Intuit’s new CEO, Steve Bennett, began to turn around that troubled business, he required every department to implement Six Sigma, a quality control management technique that focuses on being responsive to customer needs. Everybody, that is, but the techies.

“We’re not GE, we’re not a company where Jack says ‘Do it,’ and everyone salutes,” says Bill Hensler, Intuit’s vice president for process excellence. That’s because software development, according to many, is more of an art than a science. At the Six Sigma Academy, president of operations Phil Samuel says even companies that have embraced Six Sigma across every other aspect of their organization usually maintain a hands-off policy when it comes to software developers. Techies, it turns out, like to go at their own pace.

The example of software developers makes an important point about strategic pacing: some projects can’t be rushed. Companies that hurry up their research efforts or go to market before they are ready can damage their ability to innovate—and their reputation. Thus, managing the pace of innovation can be an important factor in long-term success.

Collaborating with Innovation Partners

Innovation involves gathering new knowledge and learning from your mistakes. It is rare for any one work group or department to have all the information it needs to carry an innovation from concept to commercialization. Even a company that is highly competent with its current operations usually needs new capabilities to achieve new results. Innovation partners can provide the skills and insights that are often needed to make innovation projects succeed.
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Partners can come from several sources:

- Other personnel within the department.
- Personnel within the firm but from another department.
- Partners outside the firm.

Innovation partners may also come from nonbusiness sources, including research universities and the federal government. Each year the federal government issues requests for proposals (RFPs) asking private companies for assistance in improving services or finding solutions to public problems. Universities are another type of innovation partner. Chip-maker Intel, for example, has benefited from underwriting substantial amounts of university research. Rather than hand universities a blank check, Intel bargains for rights to patents that emerge from Intel-sponsored research. The university retains ownership of the patent, but Intel gets royalty-free use of it.18

Strategic partnering has other benefits as well. It requires firms to identify their strengths and weaknesses and make choices about which capabilities to leverage, which need further development, and which are outside the firm’s current or projected scope of operations. Such knowledge can bring a level of realism to the process. It also helps managers get clear about what they need partners to do.

Consider the example of Nextel in its decision to partner with RadioFrame Networks, a Seattle-based start-up.

RadioFrame had developed an innovative radio transmitter that could be used inside buildings to make cell-phone signals clearer. Nextel, which did not have as much network capacity as some of its larger competitors, saw this as a way to increase bandwidth and add value to its existing set of services. Not only did the two firms form a partnership, but Nextel also became involved in the development process by providing senior engineers and funding to help build the system. “We really worked hand-in-hand with Nextel,” says RadioFrame CEO Jeff Brown, “from user requirements to how to physically get the finished product into their distribution systems.”19

Firms need a mechanism to help decide whom to partner with. Several factors will enter into the decision, including the issues mentioned above regarding the pace and scope of innovation initiatives. To choose partners, firms need to ask what competencies they are looking for and what the innovation partner will contribute. These contributions might include knowledge of markets, technology expertise, or contacts with key players in an industry. Innovation partnerships also typically need to specify how the rewards of the innovation will be shared and who will own the intellectual property that is developed.20

Innovation efforts that involve multiple partners and the speed and ease with which partners can network and collaborate are changing the way innovation is conducted. These changes have prompted one Harvard University professor to claim that the innovation process itself has experienced a paradigm shift. Strategy Spotlight 12.3 emphasizes the role of collaboration and partnerships in a new approach to innovation labeled “open innovation.”

As this section indicates, managing innovation is an important and challenging organizational activity. For it to be successful, the innovation process has to stay focused on its ultimate purpose—to introduce new products and/or deploy new processes that build competitive advantages and make the company profitable. Innovation involves a companywide commitment because the results of innovation affect every part of the organization. Innovation also requires an entrepreneurial spirit and skill set to be effective. One of the most important ways that companies improve and grow is when innovation is put to the task of creating new corporate ventures. We will look at that topic next.
12.3 STRATEGY SPOTLIGHT

Open Innovation: A Better Way to Build Value?

Recall from Chapter 8 the example of InnoCentive, the internet-based collaboration platform launched by Eli Lilly to provide an open source, virtual R&D community to solve complex scientific problems. Not only is InnoCentive a savvy application of digital technology, it is also an example of what Harvard business professor Henry Chesbrough calls “open innovation.” The concept of open innovation builds on two other concepts seen in previous chapters—the importance of intellectual assets in today’s economy (Chapter 4) and the use of boundaryless organizational arrangements to achieve strategic ends (Chapter 10).

Chesbrough claims that the open innovation model will become increasingly important in the future. His argument is as follows: Innovation teams and R&D departments have acted with a fairly traditional mind-set for years about how to profit from innovation initiatives. The old mind-set, however, has created a paradox—in an era when ideas and knowledge abound, innovation and industrial research seem less effective. The old way of innovating no longer seems to be bearing fruit, because new technologies and the speed of innovation are creating new demands on companies to look beyond their traditional boundaries and share their intellectual property (IP). The innovation process itself, according to Chesbrough, needs innovating.

The old approach to innovation, labeled “closed innovation,” operates on several key assumptions:

1. The smart people in our field work for us.
2. We should control the IP developed by our smart people so that competitors don’t profit from our ideas.
3. To profit from R&D and innovation, we have to discover it, develop it, and ship it ourselves.


4. If we discover it first, we will get it to market first.
5. If we get it to market first, we win.

In contrast, Chesbrough argues, the open way to successfully innovate involves collaborating and drawing on the knowledge and resources of competitors and other strategic partners. In other words, disclose your intellectual property, cross organizational boundaries to achieve innovation goals, and let others share in the wealth. Here are the contrasting assumptions that are central to open innovation:

1. Not all the smart people work for us. Some of the smart people that we need to work with work somewhere else.
2. We should profit when others use our IP and be willing to buy their IP if it advances our innovation business model.
3. Internal R&D is not the only way to add value; external R&D can also benefit us.
4. We don’t have to originate the research to profit from it.
5. Building a smarter innovation business model is better than getting to market first.

In his book, Chesbrough describes how innovation leader IBM, once an exemplar of the closed innovation approach, has transformed itself by being willing to cross boundaries and share its IP with others. He also describes how companies such as Cisco and Intel have succeeded by using an open approach while their rivals Lucent and Xerox have struggled. It remains to be seen whether other companies will adopt open innovation, but Chesbrough is convinced that the ones that are willing to seize this new approach will be the long-term winners.

>>Corporate Entrepreneurship

Corporate entrepreneurship (CE) has two primary aims: the pursuit of new venture opportunities and strategic renewal. The innovation process keeps firms alert by exposing them to new technologies, making them aware of marketplace trends, and helping them evaluate new possibilities. Corporate entrepreneurship uses the fruits of the innovation process to help firms build new sources of competitive advantage and renew their value propositions. Just as the innovation process helps firms to make positive improvements, corporate entrepreneurship helps firms identify opportunities and launch new ventures. In Chapter 6 we addressed corporate growth through mergers and acquisitions as well
Part 3  Strategic Implementation

as through joint ventures and strategic alliances. Here the focus is on internal venture development and growth.

Corporate new venture creation was labeled "intrapreneuring" by Gifford Pinchot because it refers to building entrepreneurial businesses within existing corporations. However, to engage in corporate entrepreneurship that yields above-average returns and contributes to sustainable advantages, it must be done effectively. In this section we will examine the sources of entrepreneurial activity within established firms and the methods large corporations use to stimulate entrepreneurial behavior.

In a typical corporation, what determines how entrepreneurial projects will be pursued? That depends on many factors, including:

- Corporate culture.
- Leadership.
- Structural features that guide and constrain action.
- Organizational systems that foster learning and manage rewards.

In other words, all of the factors that influence the strategy implementation process will also shape how corporations engage in internal venturing.

Other factors will also affect how entrepreneurial ventures will be pursued.

- The use of teams in strategic decision making.
- Whether the company is product or service oriented.
- Whether its innovation efforts are aimed at product or process improvements.
- The extent to which it is high-tech or low-tech.

Because these factors are different in every organization, some companies may be more involved than others in identifying and developing new venture opportunities. These factors will also influence the nature of the CE process. In this section, we will address several avenues by which companies pursue growth and profit opportunities through entrepreneurial activities.

Successful corporate entrepreneurship typically requires firms to reach beyond their current operations and markets in the pursuit of new opportunities. In fact, it is often the breakthrough opportunities that provide the greatest returns. A recent study found that 86 percent of firms expand by making incremental improvements such as extending an existing product line. Only 14 percent ventured into arenas that were new to the world or new to the firm. Although line extensions provided 62 percent of the total revenues, they accounted for only 39 percent of total profits. By contrast, the companies that entered new markets and industries enjoyed total profits of 61 percent from 38 percent of total revenues.

These findings led W. Chan Kim and Renee Mauborgne in their new book Blue Ocean Strategy to conclude that companies that are willing to venture into market spaces where there is little or no competition—labeled "blue oceans"—will outperform those firms that limit growth to incremental improvements in competitively crowded industries—labeled "red oceans." Companies that identify and pursue blue ocean strategies follow somewhat different rules than those that are "bloodied" by the competitive practices in red oceans. Consider the following elements of a blue ocean strategy:

- **Create uncontested market space.** By seeking opportunities where they are not threatened by existing competitors, blue ocean firms can focus on customers rather than on competition.

- **Make the competition irrelevant.** Rather than using the competition as a benchmark, blue ocean firms cross industry boundaries to offer new and different products and services.
12.4

STRATEGY SPOTLIGHT

Cirque du Soleil’s Blue Ocean Strategy

The blue ocean strategy of Cirque du Soleil is a prime example of creating new market space within a declining industry. The promotional tagline that the Canadian-based circus company sometimes uses explains how they did it: “We reinvent the circus.” By altering the industry boundaries that had traditionally defined the circus concept, Cirque has created a new type of circus experience that audiences have enthusiastically embraced. Since 1984, when it was founded by a group of street performers, Cirque du Soleil has staged a variety of different productions that have been seen by over 40 million people in some 90 cities around the world.

How did they do it? One of the keys to redefining the circus business was to challenge conventional thinking and create a new vision of circus entertainment. Since the days of Ringling Bros. and Barnum & Bailey, the circus had consisted of animal acts, star performers, and Bozo-like clowns. Cirque questioned this formula and sought to understand what its audiences really wanted. It found that interest in animal acts was declining in part because of public concerns over the treatment of circus animals. Since managing animals—and the celebrity trainers who performed with them—created a heavy economic burden, Cirque eliminated them.

Instead Cirque has focused on three elements of the classic circus tent event that still captivated audiences: acrobatic acts, clowns, and the tent itself. Elegant acrobatics became a central feature of its performances, and clown humor became more sophisticated and less slapstick. Cirque also preserved the image of the tent by creating exotic facades that captured the symbolic elements of the traditional tent.

For Cirque to sail into a blue ocean, however, it had to make even bigger changes. It did so by introducing theatrical elements into its circus acts. Each production provides a range of features more commonly found in theatres than in circus tents—from using theatrical story lines to replacing hard benches with comfortable seating. Rather than displaying three different acts simultaneously, as in the classic three-ring circus, Cirque offers multiple productions giving audiences a reason to go to the circus more often. Each production has a different theme and its own original musical score.

As it has rolled out all of these changes, Cirque has kept its eye on the bottom line. In fact, a key motivator for many of its changes was to find ways to lower costs and increase revenues in the declining circus industry. Cutting the cost of animal acts and star performers as well as boosting revenues by offering a variety of productions has allowed it to achieve both lower cost and differentiation advantages. Such a strategy creates value for both the company and its customers. The essence of its success, however, lies not in the extent to which it has outperformed competitors, but in how it has surpassed them by redefining the circus concept and becoming a prime mover in the market space it created.


* Create and capture new demand. Rather than fighting over existing demand, blue ocean companies seek opportunities in uncharted territory.

* Break the value/cost trade-off. Blue ocean firms reject the idea that a trade-off between value and cost is inevitable and instead seek opportunities in areas that benefit both their cost structure and their value proposition to customers.

* Pursue differentiation and low cost simultaneously. By integrating the range of a firm’s utility, price, and cost activities, blue ocean companies align their whole system to create sustainable strategies.

As the above imperatives suggest, the essence of blue ocean strategy is not just to find an uncontested market, but to create one. Some blue oceans arise because new technologies create new possibilities, such as eBay’s online auction business. Yet technological innovation is not a defining feature of a blue ocean strategy. Most blue oceans are created from within red oceans by companies that push beyond the existing industry boundaries. Strategy Spotlight 12.4 describes how Cirque du Soleil created a new market for circus entertainment by making traditional circus acts more like theatrical productions.
Once created, a blue ocean strategy is difficult to imitate. If customers flock to blue ocean creators, firms rapidly achieve economies of scale, learning advantages, and synergies across their organizational systems. Wal-Mart, for example, was able to integrate its operations and functions so efficiently that would-be imitators were effectively discouraged. Another example is Body Shop, which charted new territory by refusing to focus solely on beauty products. Traditional competitors such as Estee Lauder and L'Oreal, whose brands are based on promises of eternal youth and beauty, found it difficult to imitate this approach without repudiating their current images.

These factors suggest that blue ocean strategies provide an avenue by which firms can pursue corporate entrepreneurship. Such strategies are not without risks, however. In the sections that follow, we will address some of the strategic choice and implementation issues that influence the success or failure of CE activities. How various companies approach corporate venturing is a key factor. Two distinct approaches to corporate venturing are found among firms that pursue entrepreneurial aims. The first is focused corporate venturing, in which CE activities are isolated from a firm’s existing operations and worked on by independent work units. The second approach to CE is dispersed, in which all parts of the organization and every organization member are engaged in intrapreneurial activities. In the next two sections, we will address these approaches and provide examples of each.

Focused Approaches to Corporate Entrepreneurship

Firms using a focused approach typically separate the corporate venturing activity from the other ongoing operations of the firm. That is, corporate entrepreneurship is usually the domain of autonomous work groups that pursue entrepreneurial aims independent of the rest of the firm. The advantage of this approach is that it frees entrepreneurial team members to think and act without the constraints imposed by existing organizational norms and routines. This independence is often necessary for the kind of open-minded creativity that leads to strategic breakthroughs. The disadvantage is that, because of their isolation from the corporate mainstream, the work groups that concentrate on internal ventures may fail to obtain the resources or support needed to carry an entrepreneurial project through to completion. Two forms—new venture groups (NVGs) and business incubators—are among the most common types of focused approaches.

New Venture Groups (NVGs) Corporations often form new venture groups whose goal is to identify, evaluate, and cultivate venture opportunities. These groups typically function as semi-autonomous units with little formal structure. The new venture group may simply be a committee that reports to the president on potential new ventures. Or it may be organized as a corporate division with its own staff and budget. The aims of the new venture group may be open-ended in terms of what ventures it may consider. Alternatively, some corporations use them to promote concentrated effort on a specific problem. In both cases, they usually have a substantial amount of freedom to take risks and a supply of resources to do it with.24

New venture groups usually have a larger mandate than a typical R&D department. That is, their involvement extends beyond innovation and experimentation to coordinating with other corporate divisions, identifying potential venture partners, gathering resources, and, in some cases, actually launching the venture.

Nortel Networks, a global producer of telecom equipment, provides an example of how the NVG of a major corporation successfully launches new ventures.25 Responsibility for its venturing activities lies with a senior vice president who oversees corporate strategy, alliances, and venturing, including the company’s NVG. Company employees
12.5 STRATEGY SPOTLIGHT

Corporate Venture Capital

What does a company do when it wants to enjoy the benefits of an entrepreneurial start-up but does not want to acquire a venture or take time to develop one internally? It finances one by providing venture capital.

Since the 1970s, major U.S. corporations such as Exxon Mobil have invested in externally generated business ideas in order to strengthen their innovation profile. Some firms invest in technologies that are similar to their core business or provide potential future synergies. Intel, for example, has invested in several e-business start-ups that are in a position to increase demand for Intel processors. With the high growth potential of industries such as information technology and biotechnology, the level of corporate venture capital is increasing. During the booming dot-com era, corporate venture unit investments jumped by a factor of five, from $1.4 billion to $7.8 billion. In 2000 alone, corporations worldwide invested nearly $17 billion in venture capital.

Several major corporations have launched venture financing efforts. In Germany alone there are over 20 corporate venture funds, including global players Siemens, Bertelsmann, and Deutsche Telekom. Even utilities are investing in emerging companies. AEP, a major U.S. electric power company, recently invested in PHPK, a cryogenics firm based in Columbus, Ohio. PHPK is poised to provide support of superconductivity applications, a rapidly growing energy niche that is seeking innovations. AEP prefers expansion-stage firms that need capital and guidance rather than earlier-stage firms. And AEP invests only in energy-related companies. PHPK has nearly doubled its business since AEP made its investment, which served as an immediate endorsement of PHPK’s technology and capabilities.

The result? Intel, for one, has enjoyed tremendous returns. It has a portfolio of businesses worth $8 billion. But Intel’s goal is not just to make money—it is looking for ways to cement ties early with promising start-ups. “Companies have discovered that it’s a good way to do market development,” according to Les Vadasz, head of Intel’s venture program. “I do see it as a competitive weapon.”

Louis Rajczi, managing partner at Siemens Venture Capital, agrees. Unlike traditional VCs which invest in businesses strictly for the financial returns, corporations invest in new ventures to advance their strategic vision and beat the competition. “If we get in on more good deals at an earlier stage than our competitors, we’ll end up getting ahead,” says Rajczi. “That will increase the value of the company and increase our returns.”

Even so, corporate funding for external ventures dried up rapidly after the technology bubble burst in the early 2000s. In the first half of 2002, only $1.1 billion was invested, compared to $17 billion in 2000. Not only have new investments by corporations dropped dramatically, but also corporations such as Hewlett-Packard and Accenture have sold off large portions of their portfolios. Nevertheless, as a long-term strategy, corporate venture funding can benefit both new ventures and corporations and remains a viable alternative to internal corporate venturing.


submit ideas through a company intranet. Once the NVG decides to pursue an opportunity, two teams are set up—an opportunity team, which investigates the marketability of the venture concept, and a commercialization team, which manages venture investments and value development. Nortel’s NVG is only interested in ventures that are likely to become stand-alone businesses, not extensions of current product lines. As a result, governance of new ventures usually includes outside board members and external investors who can be involved in managing the venture once it is spun off. Recently, Nortel used this process to create a spin-off called NetActive, which offers digital rights management (DRM) technology used to protect Internet-based content.

Firms that want to expand by way of new venture start-ups usually acquire existing ventures, as discussed in Chapter 6, or develop ventures internally. Strategy Spotlight 12.5 describes a third alternative for firms that want to be entrepreneurial but still maintain their autonomy: corporate venture funding.
**Business Incubators** The term *incubator* was originally used to describe a device in which eggs are hatched. Business incubators are designed to "hatch" new businesses. They are a type of corporate new venture group with a somewhat more specialized purpose—to support and nurture fledgling entrepreneurial ventures until they can thrive on their own as stand-alone businesses. Corporations often use incubators as a way to grow businesses identified by the new venture group. Although they often receive support from many parts of the corporation, they still operate independently until they are strong enough to go it alone. Then, depending on the type of business, they are either integrated into an existing corporate division or continue to operate as a subsidiary of the parent firm. Additionally, the type of corporate venturing support reported in Strategy Spotlight 12.5 that external new ventures receive may also include allowing a young venture into the corporation's incubator. Incubators are sometimes found outside the domain of corporate entrepreneurship (see Chapter 13). However, a company-sponsored incubator often has advantages because of the experience and resources that the parent corporation can provide. Incubators typically provide some or all of the following five functions.  

- **Funding.** Usually includes capital investments but may also include in-kind investments and loans.  
- **Physical space.** A common problem for new ventures; incubators in which several start-ups share space often provide fertile ground for new ideas and collaboration.  
- **Business services.** Along with office space, young ventures need basic services and infrastructure; may include anything from phone systems and computer networks to public relations and personnel management.  
- **Mentoring.** Senior executives and skilled technical personnel often provide coaching and experience-based advice.  
- **Networking.** Contact with other parts of the firm and external resources such as suppliers, industry experts, and potential customers facilitates problem solving and knowledge sharing.  

As the above list suggests, business incubators provide a safe and supportive environment for corporate ventures. Nevertheless, the risk associated with launching ventures should not be overlooked. Companies have at times spent millions incubating new ideas with very little to show for it. Major corporations such as Lucent, British Airways, and Hewlett-Packard inactivated their incubators and scaled back new venture portfolios after experiencing major declines in value since the early 2000s.  

Thus, to encourage entrepreneurship, corporations sometimes need to do more than create independent work groups or venture incubators to generate new enterprises. In some firms, the entrepreneurial spirit is spread throughout the organization. It is this dispersed approach to corporate entrepreneurship that we turn to next.  

**Dispersed Approaches to Corporate Entrepreneurship**  
The second type of corporate entrepreneurship is dispersed. For some companies, a dedication to the principles and practices of entrepreneurship is spread throughout the organization. One advantage of this approach is that organizational members don't have to be reminded to think entrepreneurially or be willing to change. The ability to change is considered to be a core capability. Such corporations often have a reputation for being entrepreneurial. This leads to a second advantage: Because of this entrepreneurial reputation, stakeholders such as vendors, customers, or alliance partners can bring new ideas or venture opportunities to anyone in the organization and expect them to be well-received. Such opportunities make it possible for the firm to stay ahead of the competition.
However, there are disadvantages as well. Firms that are overzealous about corporate entrepreneurship sometimes feel they must change for the sake of change, causing them to lose vital competencies or spend heavily on R&D and innovation to the detriment of the bottom line. Two related aspects of dispersed entrepreneurship include entrepreneurial cultures that have an overarching commitment to CE activities and the use of product champions in promoting entrepreneurial behaviors.

**Entrepreneurial Culture** In some large corporations, the corporate culture embodies the spirit of entrepreneurship. A culture of entrepreneurship is one in which the search for venture opportunities permeates every part of the organization. Recall from Chapter 3 that the key to creating value successfully is viewing every value-chain activity as a source of competitive advantage. In a similar way, the effect of corporate entrepreneurship on a firm's strategic success is strongest when it animates all parts of an organization. It is found in companies where the strategic leaders and the culture together generate a strong impetus to innovate, take risks, and seek out new venture opportunities.

In companies with an entrepreneurial culture, everyone in the organization is attuned to opportunities to leverage the assets and capabilities of the corporation to help create new businesses. Many such firms use a top-down approach to stimulate entrepreneurial activity. That is, the top leaders of the organization support programs and incentives that foster a climate of entrepreneurship. Many of the best ideas for new corporate ventures, however, come from the bottom up. Here's what Martin Sorrell, CEO of the WPP Group, a London-based global communication services group, says about drawing on the talents of lower-level employees:

> The people at the so-called bottom of an organization know more about what's going on than the people at the top. The people in the trenches are the ones in the best position to make critical decisions. It's up to the leaders to give those people the freedom and the resources they need.

Thus, an entrepreneurial culture is one in which change and renewal are on everybody's mind. Sony, 3M, Intel, and Cisco are among the corporations best known for their corporate venturing activities. Many fast-growing young corporations also attribute much of their success to an entrepreneurial culture. Virgin Group, the British conglomerate that began as Virgin Airlines under the leadership of Richard Branson, has spawned nearly 200 new businesses in its short history. Strategy Spotlight 12.6 describes a few of Virgin's start-up successes as well as some ambitious future plans.

**Product Champions** CE does not always involve making large investments in start-ups or establishing incubators to spawn new divisions. Often, innovative ideas emerge in the normal course of business and are brought forth and become part of the way of doing business. In many firms, especially small, informally run ones, this may happen organically through the energetic efforts of individuals with good ideas. Larger firms often have more formal efforts to encourage innovation among their employees. In both cases, it is often product champions who are needed to take charge of internally generated ventures. Product (or project) champions are those individuals working within a corporation who bring entrepreneurial ideas forward, identify what kind of market exists for the product or service, find resources to support the venture, and promote the venture concept to upper management.

When lower-level employees identify a product idea or novel solution, they will take it to their supervisor or someone in authority. Similarly, a new idea that is generated in a technology lab may be introduced to others by its inventor. If the idea has merit, it gains support and builds momentum across the organization. Thus, even though the corporation may not be looking for new ideas or have a program for cultivating internal ventures, the independent behaviors of a few organizational members can have important strategic consequences.
While most large companies have to work hard to stoke the fires of entrepreneurship, they burn with ferocious intensity at the Virgin Group. As a $4.25 billion U.S. company that has created nearly 200 businesses, it stands as clear evidence that ideas, capital, and talent can flow as freely in big, far-flung organizations as they can among the start-ups of Silicon Valley.

The mix of businesses that Virgin has spawned is indicative of the fun-loving, eclectic culture that its chairman, Richard Branson, has developed. Branson and his deputies have worked hard to create a culture where employees speak up and share their ideas. There are no gleaming corporate headquarters or executive privileges, just a large house in London where meetings are held in a small room. "Rules and regulations are not our forte," Branson said. "Analyzing things to death is not our kind of thing."

There aren't even any job descriptions at Virgin, because they are thought to place too many limits on what people can do. Instead, senior executives work shoulder to shoulder with first-line employees. Branson believes that employees should be given top priority, and he has created a friendly, nonhierarchical, familylike environment in which people have fun and enjoy themselves. His advice to his employees reflects his personal philosophy: "Do things that you like. If your work and your hobby are the same, you will work long hours because you are motivated."

The result is that Virgin's businesses include entertainment megastores, cinemas, a fun-to-fly airline, an all-in-one consumer banking system, a hip radio station, and a passenger train service. Smaller ventures have also been launched by persistent employees with good ideas. "We've got people all over the world who are coming up with great new ideas, and trying them doesn't actually cost us a lot relative to the overall size of the group," says Branson.

Some of those good ideas are now integral parts of the Virgin legend:

- A woman who believed the company's airline should offer passengers onboard massages camped on Branson's doorstep until she was allowed to give him a neck and shoulder rub. Now an in-flight massage is a valued perk in Virgin Atlantic's Upper Class.
- A soon-to-be-married flight attendant came up with the idea of offering an integrated bridal planning service, everything from wedding apparel and catering to limousines and honeymoon reservations. She became the first CEO of Virgin Bride.

Virgin's latest ambitions are out of this world—literally. Branson recently teamed up with Burt Rutan, winner of the X-Prize competition which awarded $10 million to the first nongovernment-funded flight to reach an altitude of 62 miles twice with the same vehicle. With Rutan's help, Virgin wasted no time in forming a new spin-off: Virgin Galactic. The enterprise will use a "stretch" version of SpaceShipOne, the name of the winning vehicle, to ferry ordinary citizens to outer space. Tickets on these flights are already selling for about $210,000 each, and the flights are expected to begin in 2008. According to Rutan, "Space tourism will be a multibillion-dollar industry." It's just that kind of vision—and risk-taking—that has made the 54-year-old Branson's Virgin Group one of the most exciting and profitable examples of corporate entrepreneurship.


No matter how an entrepreneurial idea comes to light, however, a new venture concept must pass through two critical stages or it may never get off the ground: project definition and project impetus:

1. **Project definition.** A promising opportunity has to be justified in terms of its attractiveness in the marketplace and how well it fits with the corporation's other strategic objectives.

2. **Project impetus.** For a project to gain impetus, its strategic and economic impact must be supported by senior managers who have experience with similar projects. The project then becomes an embryonic business with its own organization and budget.
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For a project to advance through these stages of definition and impetus, a product champion is often needed to generate support and encouragement. Champions are especially important during the time after a new project has been defined but before it gains momentum. They form a link between the definition and impetus stages of internal development, which they do by procuring resources and stimulating interest for the product among potential customers. Often, they must work quietly and alone. Consider the example of Ken Kuturagi, the Sony engineer who championed the PlayStation.

Even though Sony had made the processor that powered the first Nintendo video games, no one at Sony in the mid-1980s saw any future in such products. “It was a kind of snobbery,” Kuturagi recalled. “For Sony people, the Nintendo product would have been very embarrassing to make because it was only a toy.” But Kuturagi was convinced he could make a better product. He began working secretly on a video game. Kuturagi said, “I realized that if it was visible, it would be killed.” He quietly began enlisting the support of senior executives, such as the head of R&D. He made a case that Sony could use his project to develop capabilities in digital technologies that would be important in the future. It was not until 1994, after years of “underground” development and quiet building of support, that Sony introduced the PlayStation. By the year 2000, Sony had sold 55 million of them, and Kuturagi became CEO of Sony Computer Entertainment. By 2005, Kutagari was Sony’s Chief Operating Officer, and plans to launch the third generation version of the market-leading PlayStation (PS3) were well under way.

Thus, product champions play an important entrepreneurial role in a corporate setting by encouraging others to take a chance on promising new ideas.

Measuring the Success of Corporate Entrepreneurship Activities

At this point in the discussion, it is reasonable to ask whether corporate entrepreneurship is successful. Corporate venturing, like the innovation process, usually requires a tremendous effort. Is it worth it? In this section we consider factors that corporations need to take into consideration when evaluating the success of CE programs. We also examine techniques that companies can use to limit the expense of venturing or to cut their losses when CE initiatives appear doomed.

Comparing Strategic and Financial CE Goals  Not all corporate venturing efforts are financially rewarding. Recall the example of NetActive, the Nortel Networks venture. The company was greeted with great enthusiasm once Nortel spun it off, and it attracted over $20 million in capital investment from the venture community. It also provided a technology that was highly demanded. But NetActive became . . . inactive. The company’s Web site went dark, and it was put up for sale, a victim of the dot-com crash. By most accounts, Nortel Networks did all the right things in developing NetActive in terms of establishing it as a stand-alone business and endowing it with assets and funding. But the business was a flop financially.

In terms of financial performance, slightly more than 50 percent of corporate venturing efforts reach profitability (measured by ROI) within six years of their launch. If this were the only criterion for measuring success, it would seem to be a rather poor return. On the one hand, these results should be expected, because CE is riskier than other investments such as expanding ongoing operations. On the other hand, corporations expect a higher return from corporate venturing projects than from normal operations. Thus, in terms of the risk-return trade-off, it seems that CE often falls short of expectations.

There are several other important criteria, however, for judging the success of a corporate venture initiative. In addition to financial goals, most CE programs have strategic goals. The strategic reasons for undertaking a corporate venture include strengthening competitive position, entering into new markets, expanding capabilities by
learning and acquiring new knowledge, and building the corporation’s base of resources and experience. Different corporations may emphasize some of these goals more than others, but in general three questions should be used to assess the effectiveness of a corporation’s venturing initiatives:

1. *Are the products or services offered by the venture accepted in the marketplace?* That is, is the venture considered to be a market success? If so, the financial returns are likely to be satisfactory. In addition, the venture may open doors into other markets and suggest avenues for other venture projects.

2. *Are the contributions of the venture to the corporation’s internal competencies and experience valuable?* That is, does the venture add to the worth of the firm internally? If so, strategic goals such as leveraging existing assets, building new knowledge, and enhancing firm capabilities are likely to be met.

3. *Is the venture able to sustain its basis of competitive advantage?* That is, does the value proposition offered by the venture insulate it from competitive attack? If so, it is likely to place the corporation in a stronger position relative to competitors and provide a base from which to build other advantages.

As you can see, these criteria include both strategic and financial goals of CE. Another way to evaluate a corporate venture is in terms of the four criteria from the Balanced Scorecard (Chapter 3). In a successful venture, not only are financial and market acceptance (customer) goals met but so are the internal business and innovation and learning goals. Thus, when assessing the success of corporate venturing, it is important to look beyond simple financial returns and consider a well-rounded set of criteria.

Next, we revisit the concept of real options as a way to evaluate the progress of a venture development program and consider the role of “exit champions” in helping corporations limit their exposure to venture projects that are unlikely to succeed.

**Exit Champions** Although a culture of championing venture projects is advantageous for stimulating an ongoing stream of entrepreneurial initiatives, many—in fact, most—of the ideas will not work out. At some point in the process, a majority of initiatives will be abandoned. Sometimes, however, companies wait too long to terminate a new venture and do so only after large sums of resources are used up or, worse, result in a marketplace failure. Motorola’s costly global satellite telecom project known as Iridium provides a useful illustration. Even though problems with the project existed during the lengthy development process, Motorola refused to pull the plug. Only after investing $5 billion and years of effort was the project abandoned.

How can companies avoid these costly and discouraging defeats? One way is to support a key role in the CE process: “exit champions.” In contrast to product champions and other entrepreneurial enthusiasts within the corporation, exit champions are willing to question the viability of a venture project. By demanding hard evidence and challenging the belief system that is carrying an idea forward, exit champions hold the line on ventures that appear shaky.

Both product champions and exit champions must be willing to energetically stand up for what they believe. Both put their reputations on the line. But they also differ in important ways. Product champions deal in uncertainty and ambiguity. Exit champions reduce ambiguity by gathering hard data and developing a strong case for why a project should be killed. Product champions are often thought to be willing to violate procedures and operate outside normal channels. Exit champions, by contrast, often have to reinstate procedures and reassert the decision-making criteria that are supposed to guide venture decisions. Whereas product champions often emerge as heroes, exit champions run the risk of losing status by opposing popular projects.
Thus, the role of exit champion may seem unappealing. But it is one that could save a corporation both financially and in terms of its reputation in the marketplace. It is especially important because one measure of the success of a firm's CE efforts is the extent to which it knows when to cut its losses and move on.

**Real Options** Another way firms can minimize failure and avoid losses from pursuing faulty ideas is to apply the logic of real options (Chapter 6). Applied to entrepreneurship, real options suggest a path that corporations can use to manage the uncertainty associated with launching new ventures.

Options are created whenever a company begins to explore a new venture concept. That is, initial investments, such as conducting market tests, building prototypes, and forming venture teams, bestow an option to invest further. Retail giant Wal-Mart provides an interesting example of this limited approach. It's safe to say Wal-Mart could enter just about any market it wanted to in a big way. But its recent decision to enter the used-car business began with an experiment. Four dealerships were set up in the Houston, Texas, area under a brand called Price I Auto Stores. According to Ira Kalish, chief economist for Retail Forward, Inc., a consulting group that specializes in retailing, "Wal-Mart will seek to test the outer boundaries of what consumers are willing to let Wal-Mart be." 41

With its four-store experiment, Wal-Mart is obtaining an option to invest more at a later date. The results of Wal-Mart's market test will be factored into the next round of decisions. This is consistent with the logic of real options—based on feedback at each stage of development, firms decide whether to exercise their options by making further investments. Alternatively, they may decide that the idea is not worth further consideration. In so doing—that is, by making smaller and more incremental investments—firms keep their total investment low and minimize downside risk. Often it's the job of an exit champion or some other practically minded organization member to decide that a project does not warrant further investment.

Consider the real options logic that Johnson Controls, a maker of car seats, instrument panels, and interior control systems uses to advance or eliminate entrepreneurial ideas. 42 Johnson options each new innovative idea by making a small investment in it. To decide whether to exercise an option, the idea must continue to prove itself at each stage of development. Here's how Jim Geschke, vice president and general manager of electronics integration at Johnson, describes the process:

Think of Johnson as an innovation machine. The front end has a robust series of gates that each idea must pass through. Early on, we'll have many ideas and spend a little money on each of them. As they get more fleshed out, the ideas go through a gate where a go or no-go decision is made. A lot of ideas get filtered out, so there are far fewer items, and the spending on each goes up. . . . Several months later each idea will face another gate. If it passes, that means it's a serious idea that we are going to develop. Then the spending goes way up, and the number of ideas goes way down. By the time you reach the final gate, you need to have a credible business case in order to be accepted. At a certain point in the development process, we take our idea to customers and ask them what they think. Sometimes they say, "That's a terrible idea. Forget it." Other times they say, "That's fabulous. I want a million of them."

This process of evaluating ideas by separating winning ideas from losing ones in a way that keeps investments low has helped Johnson Controls grow its revenues at a double-digit rate to over $28 billion a year. Thus, using real options logic to advance the development process is a key way that firms reduce uncertainty and minimize innovation-related failures. 43

The types of venture projects and entrepreneurial initiatives that corporations pursue are more likely to succeed if their organizational members behave entrepreneurially. In the next section, we look at the practices and characteristics that are associated with an entrepreneurial orientation.
Entrepreneurial Orientation

Firms that want to engage in successful corporate entrepreneurship need to have an entrepreneurial orientation (EO). EO refers to the strategy-making practices that businesses use in identifying and launching corporate ventures. It represents a frame of mind and a perspective toward entrepreneurship that is reflected in a firm’s ongoing processes and corporate culture.\(^{44}\)

An entrepreneurial orientation has five dimensions that permeate the decision-making styles and practices of the firm’s members. These are autonomy, innovativeness, proactiveness, competitive aggressiveness, and risk taking. These factors can work together to enhance a firm’s entrepreneurial performance. But even those firms that are strong in only a few aspects of EO can be very successful.\(^{45}\) Exhibit 12.2 summarizes the dimensions of an entrepreneurial orientation. Below we discuss the five dimensions of entrepreneurial orientation and how they have been used to enhance internal venture development.

Autonomy

Autonomy refers to a willingness to act independently in order to carry forward an entrepreneurial vision or opportunity. It applies to both individuals and teams that operate outside an organization’s existing norms and strategies. In the context of corporate entrepreneurship, autonomous work units are often used to leverage existing strengths in new arenas, identify opportunities that are beyond the organization’s current capabilities, and encourage development of new ventures or improved business practices.\(^{46}\)

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Definition</th>
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<tr>
<td>Autonomy</td>
<td>Independent action by an individual or team aimed at bringing forth a business concept or vision and carrying it through to completion.</td>
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<tr>
<td>Innovativeness</td>
<td>A willingness to introduce novelty through experimentation and creative processes aimed at developing new products and services as well as new processes.</td>
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<tr>
<td>Proactiveness</td>
<td>A forward-looking perspective characteristic of a marketplace leader that has the foresight to seize opportunities in anticipation of future demand.</td>
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<tr>
<td>Competitive aggressiveness</td>
<td>An intense effort to outperform industry rivals characterized by a combative posture or an aggressive response aimed at improving position or overcoming a threat in a competitive marketplace.</td>
</tr>
<tr>
<td>Risk taking</td>
<td>Making decisions and taking action without certain knowledge of probable outcomes; some undertakings may also involve making substantial resource commitments in the process of venturing forward.</td>
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The need for autonomy may apply to either dispersed or focused entrepreneurial efforts. Clearly, because of the emphasis on venture projects that are being developed outside of the normal flow of business, a focused approach suggests a working environment that is relatively autonomous. But autonomy may also be important in an organization where entrepreneurship is part of the corporate culture. Everything from the methods of group interaction to the firm’s reward system must make organizational members feel as if they can think freely about venture opportunities, take time to investigate them, and act without fear of condemnation. This implies a respect for the autonomy of each individual and an openness to the independent thinking that goes into championing a corporate venture idea. Thus, autonomy represents a type of empowerment (see Chapter 11) that is directed at identifying and leveraging entrepreneurial opportunities.

Two techniques that organizations often use to promote autonomy include:

1. **Using skunkworks to foster entrepreneurial thinking.** To help managers and other employees set aside their usual routines and practices, companies often develop independent work units called “skunkworks” to encourage creative thinking and brainstorming about new venture ideas. The term is used to represent a work environment that is often physically separate from corporate headquarters and free of the normal job requirements and pressures. Nearly every major corporation that grows by means of entrepreneurship uses some form of skunkworks. That’s what Overstock.com, the successful online retailer, did when it decided to explore creating an auction service that would compete with eBay. Led by 29-year-old Holly Macdonald-Korth, a group of Overstock staffers set up shop in a corner of one of its company warehouses. The group started by reselling merchandise that had been returned to Overstock on eBay. “We started this business on eBay just like someone would probably start it in their garage,” says Macdonald-Korth. “I really wanted to understand all the problems a small business would face.” Within four months, their e-selling experiment was bringing in about $30,000 per week. Soon after, they used their newly gained knowledge of selling online to create a new division called Overstock Auctions. The Overstock approach aims to improve on eBay’s service in a few key ways, including offering listing fees that are 30 percent lower and extending auctions to prevent last minute bidders from scooping up items during the last few seconds of an auction.

2. **Designing organization structures that support independent action.** Sometimes corporations need to do more than create independent think tanks to help stimulate new ideas. Changes in organizational structure may also be necessary. Established firms with traditional structures often have to break out of such molds in order to remain competitive. This was the conclusion of Deloitte Consulting, a division of Deloitte Touche Tohmatsu, one of the world’s largest accounting consultancies. After losing millions in consulting jobs to young Internet-based consultancies, Deloitte decided to reorganize. The first step was to break the firm into small, autonomous groups called “chip-aways” that could operate with the speed and flexibility of a start-up. “This allows them to react more like a Navy SEAL team rather than an Army division,” according to Tom Rodenhauser, author of *Inside Consulting*. One of Deloitte’s first chip-aways was Roundarch, a Web technology and marketing venture that projected first-year revenues of $40 million and beat its own projections by 10 percent. Other organization structures may also help promote autonomy, such as virtual organizations that allow people to work independently and communicate via the Web.

Creating autonomous work units and encouraging independent action may have pitfalls that can jeopardize their effectiveness. Autonomous teams, for example, often lack
coordination. Excessive decentralization has a strong potential to create inefficiencies, such as duplication of effort and wasting resources on projects with questionable feasibility. For example, Chris Galvin, former CEO of Motorola, scrapped the skunkworks approach the company had been using to develop new wireless phones. Fifteen teams had created 128 different phones, which led to spiraling costs and overly complex operations.50 Thus, for autonomous work units and independent projects to be effective, such efforts have to be measured and monitored. This requires a delicate balance for corporations. They must have the patience and budget to tolerate the explorations of autonomous groups and have the strength to cut back efforts that are not bearing fruit. It must be undertaken with a clear sense of purpose—namely, to generate new sources of competitive advantage.

Innovativeness

Innovativeness refers to a firm’s efforts to find new opportunities and novel solutions. In the beginning of this chapter we discussed innovation; here the focus is on innovativeness—that is, a firm’s attitude toward innovation and willingness to innovate. It involves creativity and experimentation that result in new products, new services, or improved technological processes. Innovativeness is one of the major components of an entrepreneurial strategy. As indicated at the beginning of the chapter, however, the job of managing innovativeness can be very challenging.

Innovativeness requires that firms depart from existing technologies and practices and venture beyond the current state of the art. Inventions and new ideas need to be nurtured even when their benefits are unclear. However, in today’s climate of rapid change, effectively producing, assimilating, and exploiting innovations can be an important avenue for achieving competitive advantages.

As our earlier discussion of CE indicated, many corporations owe their success to an active program of innovation-based corporate venturing.51 Few, however, have a more exemplary reputation for effective entrepreneurship than W. L. Gore. Exhibit 12.3 describes the policies that create a climate of innovativeness at W. L. Gore.

Two of the methods companies can use to enhance their competitive position through innovativeness are:

1. **Fostering creativity and experimentation.** To innovate successfully, firms must break out of the molds that have shaped their thinking. They also must create avenues for employees to express themselves. Tim Warren, director of research and technical services at the oil giant Royal Dutch/Shell, was sure that Shell’s employees had vast reserves of innovative talent that had not been tapped. He also felt that more radical innovations were needed for Shell to achieve its performance goals. So Warren allocated $20 million to be used for breakthrough ideas that would change the playing field. He also asked his people to devote up to 10 percent of their time to nonlinear thinking. The initiative became known as the “GameChanger.” With the help of Strategos Consulting, the GameChanger review panel developed an Innovation Lab to help employees develop game-changing ideas. The first lab attracted 72 would-be entrepreneurs who learned how to uncover new opportunities and challenge industry conventions. By the end of the three-day lab, a portfolio of 240 ideas had been generated. The GameChanger process, which now provides funding of $100,000 to $600,000 within 10 days after approval, has now found a permanent home within Shell and has become a critical part of its internal entrepreneurial process.52

2. **Investing in new technology, R&D, and continuous improvement.** For successful innovation, companies must seek advantages from the latest technologies. This
<table>
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<tr>
<th>Rule</th>
<th>Implications</th>
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<tr>
<td>The power of small teams</td>
<td>Gore believes that small teams promote familiarity and autonomy. Even its manufacturing plants are capped at just 200 people. That way everyone can get to know one another on a first-name basis and work together with minimal rules. This also helps to cultivate “an environment where creativity can flourish,” according to CEO Chuck Carroll.</td>
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<td>No ranks, no titles, no bosses</td>
<td>Because Gore believes in maximizing individual potential, employees, dubbed “associates,” decide for themselves what new commitments to take on. Associates have “sponsors,” rather than bosses, and there are no standardized job descriptions or categories. Everyone is supposed to take on a unique role. Committees of co-workers evaluate each team member’s contribution and decide on compensation.</td>
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<tr>
<td>Take the long view</td>
<td>Although impatient about the status quo, Gore exhibits great patience with the time—often years, sometimes decades—it takes to nurture and develop breakthrough products and bring them to market.</td>
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<tr>
<td>Make time for face time</td>
<td>Gore avoids the traditional hierarchical chain of command, opting instead for a team-based environment that fosters personal initiative. Gore also discourages memos and e-mail and promotes direct, person-to-person communication among all associates—anyone in the company can talk to anyone else.</td>
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<tr>
<td>Lead by leading</td>
<td>Associates are encouraged to spend about 10 percent of their time pursuing speculative new ideas. Anyone is free to champion products, as long as they have the passion and ideas to attract followers. Many of Gore’s breakthroughs started with one person acting on his or her own initiative and developed as colleagues helped in their spare time.</td>
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<tr>
<td>Celebrate failure</td>
<td>When a project doesn’t work out and the team decides to kill it, they celebrate just as they would if it had been a success—with some beer and maybe a glass of champagne. Rather than condemning failure, Gore figures that celebrating it encourages experimentation and risk taking.</td>
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often requires a substantial investment. Consider, for example, Dell Computer Corp.’s new production capability. With its new OptiPlex manufacturing system, Dell is attempting to revolutionize the way computers are made. Of course, it is still necessary to connect part A to part B—that is, to conduct the basic assembly process. But how those parts are received, handled, and turned into finished product is changing radically because of Dell’s state-of-the-art automation techniques. The OptiPlex factory is managed by a network of computers that takes in orders, communicates with suppliers, draws in components, organizes the assembly process, and arranges shipping. The result: Hundreds of computers can be custom-built in an eight-hour shift, productivity per person increased 160 percent,
and most parts are kept on hand for a mere two hours. Dell was already leading other major PC manufacturers by maintaining product inventories for only 5 or 6 days compared with the industry average of 50 to 90 days. With its latest innovation, Dell now expects to cut inventory turnover down to $2\frac{1}{2}$ days.\(^{53}\)

Innovativeness can be a source of great progress and strong corporate growth, but there are also major pitfalls for firms that invest in innovation. Expenditures on R&D aimed at identifying new products or processes can be a waste of resources if the effort does not yield results. Another danger is related to the competitive climate. Even if a company innovates a new capability or successfully applies a technological breakthrough, another company may develop a similar innovation or find a use for it that is more profitable. Finally, in many firms, R&D and other innovation efforts are among the first to be cut back during an economic downturn.

Therefore, even though innovativeness is an important means of internal corporate venturing, it also involves major risks because investments in innovations may not pay off. For strategic managers of entrepreneurial firms, however, successfully developing and adopting innovations can generate competitive advantages and provide a major source of growth for the firm.

**Proactiveness**

*Proactiveness* refers to a firm’s efforts to seize new opportunities. Proactive organizations monitor trends, identify the future needs of existing customers, and anticipate changes in demand or emerging problems that can lead to new venture opportunities. Proactiveness involves not only recognizing changes but also being willing to act on those insights ahead of the competition. Strategic managers who practice proactiveness have their eye on the future in a search for new possibilities for growth and development.

Such a forward-looking perspective is important for companies that seek to be industry leaders. Many proactive firms seek out ways not only to be future oriented but also to change the very nature of competition in their industry. From its beginning, Dell sold personal computers directly to consumers, diminishing the role of retail stores as a way to reach customers. Its success changed the way PCs were sold.\(^{54}\)

Proactiveness is especially effective at creating competitive advantages, because it puts competitors in the position of having to respond to successful initiatives. The benefit gained by firms that are the first to enter new markets, establish brand identity, implement administrative techniques, or adopt new operating technologies in an industry is called first mover advantage.\(^{55}\)

First movers usually have several advantages. First, industry pioneers, especially in new industries, often capture unusually high profits because there are no competitors to drive prices down. Second, first movers that establish brand recognition are usually able to retain their image and hold on to the market share gains they earned by being first. Sometimes these benefits also accrue to other early movers in an industry, but, generally speaking, first movers have an advantage that can be sustained until firms enter the maturity phase of an industry’s life cycle.\(^{56}\)

First movers are not always successful. For one thing, the customers of companies that introduce novel products or embrace breakthrough technologies may be reluctant to commit to a new way of doing things. In his book *Crossing the Chasm*, Geoffrey A. Moore noted that most firms seek evolution, not revolution, in their operations. This makes it difficult for a first mover to sell promising new technologies.\(^{57}\) Second, some companies try to be a first mover before they are ready. Consider Apple Computer’s Newton.
Newton, the first personal digital assistant (PDA), was released in 1993. Because it was revolutionary, it generated a great deal of media attention and initial sales success. But the Newton was troubled from the beginning because it was launched before it was ready. For too many customers, it could not do what it claimed: recognize handwriting. But Apple was desperate to launch ahead of Microsoft. “We cut corners and ignored problems ... to gain an edge in a reckless public relations battle,” said Larry Tesler, who headed the Newton group until a few months before its release. In 1998, after five years of trying to recover from its initial failure, the Newton project was killed.53

Even with these caveats, however, companies that are first movers can enhance their competitive position. Firms can use two other methods to act proactively.

1. **Introducing new products or technological capabilities ahead of the competition.** Maintaining a high level of proactiveness is central to the corporate culture of some major corporations. Sony’s mission statement asserts, for example, “We should always be the pioneers with our products—out front leading the market. We believe in leading the public with new products rather than asking them what kind of products they want.” Sony has launched numerous new products that not only have succeeded financially but have changed the competitive landscape. Walkman, PlayStation, Betacam, and Vaio laptop computers are just a few of the many leading products that Sony has introduced.

2. **Continuously seeking out new product or service offerings.** Firms that provide new resources or sources of supply can benefit from a proactive stance. Aerie Networks is a Denver company that aspires to expand the U.S. fiber-optic network extensively. Two factors make its efforts especially proactive. First, it is laying cable that contains 432 fibers (compared with the 96 strands that established companies like AT&T typically install). This approach fits Aerie’s goal of being the low-cost wholesaler of bandwidth to long-distance carriers and other fiber users. Second, it worked for over a year to form an alliance with gas pipeline rivals that made it possible to use up to 25,000 miles of pipeline rights-of-way across 26 states. The partnering was more difficult than the technology—Aerie had to give a 30 percent stake to the gas pipeline companies—but the potential payoff is enormous.60

Being an industry leader does not always lead to competitive advantages. Some firms that have launched pioneering new products or staked their reputation on new brands have failed to get the hoped-for payoff. Two major beverage companies—Coca-Cola and PepsiCo—invested $75 million to launch sodas that would capitalize on the low-carb diet trend. But with half the carbohydrates taken out, neither C2, Coke’s entry, nor Pepsi Edge tasted very good. The two new brands combined never achieved more than one percent market share. PepsiCo announced in would halt production in 2006 and Coca-Cola was expected to follow suit.61 Such missteps are indicative of the dangers of trying to proactively anticipate demand. Strategy Spotlight 12.7, in contrast, describes another type of proactiveness—how some organizations are using entrepreneurial thinking and practices to effectively promote corporate social responsibility.

Thus, careful monitoring and scanning of the environment, as well as extensive feasibility research, are needed for a proactive strategy to lead to competitive advantages. Firms that do it well usually have substantial growth and internal development to show for it. Many of them have been able to sustain the advantages of proactiveness for years.

**Competitive Aggressiveness**

*Competitive aggressiveness* refers to a firm’s efforts to outperform its industry rivals. Companies with an aggressive orientation are willing to “do battle” with competitors.
STRATEGY SPOTLIGHT

Socially Responsible Corporate Entrepreneurship

One of the most important trends in U.S. business today is corporate social responsibility (CSR). Proactively oriented firms are seizing opportunities to take a leading role in issues such as the environment, product safety, and fair trade. Among the most interesting examples of this, as suggested in the Chapter 1 section on social innovation, are those firms that are taking an entrepreneurial approach to CSR. That is, they are using new technologies, environmentally friendly ventures, and entrepreneurial practices to advance their social responsibility goals. Following is a sample of three corporations that are taking a very entrepreneurial approach to corporate social responsibility.

Whirlpool Corporation—From efficiency to advocacy

Whirlpool is perhaps best known for its “white boxes”—the refrigerators, freezers, and laundry appliances that account for over 60 percent of its $13 billion in annual sales. To explore what creates customer loyalty, Whirlpool conducted a global survey of its customers. “We discovered there is a strong correlation between a company’s performance in appliance markets and their social response to issues such as energy efficiency and pollution,” said Steve Willis, director of Whirlpool’s global environment, health, and safety programs. One result has been its innovative Duet Series of washers and dryers that significantly reduces energy consumption. Recently, Whirlpool decided to take its environmental efforts a step farther: It joined The Natural Step, an entrepreneurial organization that is advancing the movement toward environmental sustainability by advocating the development of innovative products that meet high standards of ecological sustainability.

Interface, Inc.—Doing more with less

In Chapter 1, we saw how some companies have changed their corporate missions to include socially responsible goals like protecting the environment. Carpet maker Interface Inc. has found a way not only to become more environmentally friendly but also to achieve a universal entrepreneurial objective: Do more with less. By leasing rather than selling carpets, Georgia-based Interface is able to take back worn carpets and “remanufacture” them. As a result, it has cut its raw materials input costs by nearly 100 percent and its business customers get to deduct the cost of leasing. “Our costs are down, not up,” according to CEO Ray Anderson. “Sustainability doesn’t cost more, it saves.” Recently, Interface instituted a program known as EcoSense to educate its employees about sustainability and reward them for making environmental improvements. These savings helped Interface survive the 40 percent decline in sales of office furnishings that followed the dot-com collapse and the September 11th terrorist attack. “We might not have made it if it were not for our EcoSense programs,” says Anderson.

Green Mountain Coffee Roasters—Empowering local entrepreneurs

As the name suggests, this NASDAQ-listed corporation (GMCR) is located in the Green Mountains of Vermont. But its reach is global. As a roaster and distributor of specialty coffees, GMCR has become a leading advocate for fair trade practices and providing financial support for local coffee growers. “Our president and CEO Robert Stiller visited places where coffee is grown and was struck by the levels of poverty. He wanted to do something about it,” said Rick Payser, director of public relations. As a result, GMCR now purchases coffee beans from small farm cooperatives in Peru, Mexico, and Sumatra. It also provides micro-loans to underwrite family businesses that are trying to create more diverse agricultural economies. Back home in its Waterbury, Vermont, roasting facility, GMCR uses a 95-kilowatt cogeneration system that captures waste heat from its propane-fired generator and recycles it for both coffee roasting and space heating.

Each of these companies has recently been named one of the 100 Best Corporate Citizens by Business Ethics magazine. However, major corporations still have their critics. In fact, companies that claim to be making progress in advancing CSR are often the most loudly criticized. For example, British Petroleum, which has endeavored to be an oil industry leader in supporting environmentally sensitive energy development, is often attacked by environmental groups despite initiatives such as investing $48 million to develop the world’s largest solar energy project. Despite such criticism, it is encouraging to note that entrepreneurial activities can help companies achieve their social responsibility goals as well as their innovation and growth goals.
They might slash prices and sacrifice profitability to gain market share or spend aggressively to obtain manufacturing capacity. As an avenue of firm development and growth, competitive aggressiveness may involve being very assertive in leveraging the results of other entrepreneurial activities such as innovativeness or proactiveness.

Unlike innovativeness and proactiveness, however, which tend to focus on market opportunities, competitive aggressiveness is directed toward competitors. The SWOT (strengths, weaknesses, opportunities, threats) analysis discussed in Chapters 2 and 3 provides a useful way to distinguish between these different approaches to corporate entrepreneurship. Proactiveness, as we saw in the last section, is a response to opportunities—the O in SWOT. Competitive aggressiveness, by contrast, is a response to threats—the T in SWOT. A competitively aggressive posture is important for firms that seek to enter new markets in the face of intense rivalry.

Strategic managers can use competitive aggressiveness to combat industry trends that threaten their survival or market position. Sometimes firms need to be forceful in defending the competitive position that has made them an industry leader. Firms often need to be aggressive to ensure their advantage by capitalizing on new technologies or serving new market needs.

Two of the ways competitively aggressive firms enhance their entrepreneurial position are:

1. **Entering markets with drastically lower prices.** Smaller firms often fear the entry of resource-rich large firms into their marketplace. Because the larger firms usually have deep pockets, they can afford to cut prices without being seriously damaged by an extended period of narrow margins. In the mid-1990s, the retail record store business was nearly wiped out when larger new entrants launched a price war. It started when Best Buy, a “big box” electronics retailer with hundreds of stores, was looking for a way to increase traffic in its large suburban stores. It decided to sell compact disks (CDs). Most record stores were paying about $10 at wholesale for CDs and selling them for $14 or more. Best Buy priced new releases at $9.98. Soon, archrival Circuit City also started retailing CDs and a major price war followed. Within two years, seven record stores declared bankruptcy. The Best Buy executive who championed the CD policy said, “The whole goal of getting into business is taking market share and building your business. That’s what it’s about.”

2. **Copying the business practices or techniques of successful competitors.** We’ve all heard that imitation is the highest form of flattery. But imitation may also be used to take business from competitors; as long as the idea or practice is not protected by intellectual property laws, it’s not illegal. This was the conclusion of Chris Bogan, CEO of Best Practices, LLC, a North Carolina consulting group with $8 million in revenues. Best Practices seeks out best practices in order to repackage and resell them or use them internally. Its mission is to find superstar performers in the business world and then sell their secrets to others. Best Practices’s revenues come from one-time consulting projects and products like databases and benchmarking reports on subjects such as managing call centers and launching new products. Bogan’s philosophy is that companies don’t have to invent solutions to their problems; they can “steal” them from successful companies.

Another practice companies use to overcome the competition is to make preannouncements of new products or technologies. This type of signaling is aimed not only at potential customers but also at competitors to see how they will react or to discourage them from launching similar initiatives. Sometimes the preannouncements are made just to scare off competitors, an action that has potential ethical implications.
Part 3 Strategic Implementation

Competitive aggressiveness may not always lead to competitive advantages. Some companies (or their CEOs) have severely damaged their reputations by being overly aggressive. Microsoft is a good example. Although it continues to be a dominant player, its highly aggressive profile makes it the subject of scorn by some businesses and individuals. Microsoft's image also contributed to the huge antitrust suit brought against it by the U.S. government and several states. Efforts to find viable replacements for the Microsoft products upon which users have become overly dependent may eventually erode Microsoft's leading role as a software provider.

Therefore, competitive aggressiveness is a strategy that is best used in moderation. Companies that aggressively establish their competitive position and vigorously exploit opportunities to achieve profitability may, over the long run, be better able to sustain their competitive advantages if their goal is to defeat, rather than decimate, their competitors.

Risk Taking

Risk taking refers to a firm's willingness to seize a venture opportunity even though it does not know whether the venture will be successful—to act boldly without knowing the consequences. To be successful through corporate entrepreneurship, firms usually have to take on riskier alternatives, even if it means foregoing the methods or products that have worked in the past. To obtain high financial returns, firms take such risks as assuming high levels of debt, committing large amounts of firm resources, introducing new products into new markets, and investing in unexplored technologies.

In some ways, all of the approaches to internal development that we have discussed are potentially risky. Whether they are being aggressive, proactive, or innovative, firms or the path of corporate entrepreneurship must act without knowing how their actions will turn out. Before launching their strategies, corporate entrepreneurs must know their firm's appetite for risk. How far is it willing to go without knowing what the outcome will be?

Three types of risk that organizations and their executives face are business risk, financial risk, and personal risk:

- **Business risk taking** involves venturing into the unknown without knowing the probability of success. This is the risk associated with entering untested markets or committing to unproven technologies.

- **Financial risk taking** requires that a company borrow heavily or commit a large portion of its resources in order to grow. In this context, risk is used to refer to the risk-return trade-off that is familiar in financial analysis.

- **Personal risk taking** refers to the risks that an executive assumes in taking a stand in favor of a strategic course of action. Executives who take such risks stand to influence the course of their whole company, and their decisions also can have significant implications for their careers.

In many business situations, all three types of risk taking are present. Taking bold new actions rarely affects just one part of the organization. Consider the example of David D'Alessandro of John Hancock Financial Services, Inc.

David D'Alessandro joined insurance giant John Hancock in 1984 as its vice president of corporate communications. At the time, Hancock's image was weak due in part to a series of forgettable TV ads that failed to distinguish it from other insurance carriers. D'Alessandro championed a new advertising campaign that featured "real life" images, such as a husband and wife arguing, and a lesbian couple adopting a Vietnamese baby. Although it was costly to produce and risky for the image of the traditional insurance carrier, sales surged 17 percent in the first year of the ad campaign. The risk also paid off for D'Alessandro personally.
May 2000 he was named the youngest chairman and CEO in John Hancock’s history. (In 2004, John Hancock was acquired by Toronto-based Manulife Financial Corporation.)

Even though risk taking involves taking chances, it is not gambling. The best-run companies investigate the consequences of various opportunities and create scenarios of likely outcomes. Their goal is to reduce the riskiness of business decision making. As we saw in the section on product champions, a key to managing entrepreneurial risks is to evaluate new venture opportunities thoroughly enough to reduce the uncertainty surrounding them.

Companies can use the following two methods to strengthen their competitive position through risk taking.

1. **Researching and assessing risk factors to minimize uncertainty.** Although all new business endeavors are inherently risky, firms that do their homework can usually reduce their risk. For example, Graybar Electric Co., a privately held 136-year-old provider of data and telecom equipment, had to revamp its warehouse and distribution system. The Internet was creating booming demand. But with 231 local distribution centers, each run independently, Graybar could not get its products to customers fast enough. After careful analysis, the company hatched a plan that consolidated 16 supply warehouses without displacing any local managers, thus preserving the quality of service for both customers and employees. The changeover was expensive—$144 million over four years. But the plan called for a payback after five years, and even with telecom sector sales slipping, Graybar’s prudent risk taking led to a 21 percent surge in sales in 2000. By 2004, its annual revenues exceeded $4 billion.

2. **Using techniques that have worked in other domains.** Risky methods that other companies have applied successfully may be used to advance corporate ventures. Consider the actions of Autobytel.com, one of the first companies to sell cars online. Although it had enjoyed early success by being a first mover, it wanted to jump-start its sales. It decided to make a risky move. In a year when Autobytel.com earned only $6 million in revenues, it committed $1.2 million to a 30-second TV advertisement. But that ad was run during the Super Bowl and Autobytel was the first dot-com ever to use that venue. The free publicity and favorable business press it received extended far beyond the 30 seconds that Autobytel’s $1.2 million had bought it.

Risk taking, by its nature, involves potential dangers and pitfalls. Only carefully managed risk is likely to lead to competitive advantages. Actions that are taken without sufficient forethought, research, and planning may prove to be very costly. The era of dot-com start-ups and subsequent failures proved that businesses are often launched—at great expense—without a clear sense of the long-term or even, in some cases, short-term consequences. When the Internet bubble burst, more than $3 trillion of investment wealth was wiped out of the U.S. stock markets, due in large part to the collapse of the dot-com surge. Along with the financial losses, the business and personal losses were enormous.

Strategic managers must always remain mindful of potential risks. In his book *Innovation and Entrepreneurship*, Peter Drucker argued that successful entrepreneurs are typically not risk takers. Instead, they take steps to minimize risks by carefully understanding them. That is how they avoid focusing on risk and remain focused on opportunity. Thus, risk taking is a good place to close this chapter on corporate entrepreneurship. Companies that choose to grow through internal corporate venturing must remember that entrepreneurship always involves embracing what is new and uncertain.
Summary

To remain competitive in today's economy, established firms must find new avenues for development and growth. This chapter has addressed how innovation and corporate entrepreneurship can be a means of internal venture creation and strategic renewal, and how an entrepreneurial orientation can help corporations enhance their competitive position.

Innovation is one of the primary means by which corporations grow and strengthen their strategic position. Innovations can take several forms, ranging from radical breakthrough innovations to incremental improvement innovations. Innovations are often used to update products and services or for improving organizational processes. Managing the innovation process is often challenging, because it involves a great deal of uncertainty and there are many choices to be made about the extent and type of innovations to pursue. By defining the scope of innovation, managing the pace of innovation, and collaborating with innovation partners, firms can more effectively manage the innovation process.

We also discussed the role of corporate entrepreneurship in venture development and strategic renewal. Entrepreneurial firms that pursue a blue ocean strategy find success by breaking down traditional industry barriers and creating new arenas in which to achieve market dominance. Other corporations usually take either a focused or dispersed approach to corporate venturing. Firms with a focused approach usually separate the corporate venturing activity from the ongoing operations of the firm in order to foster independent thinking and encourage entrepreneurial team members to think and act without the constraints imposed by the corporation. In corporations where venturing activities are dispersed, a culture of entrepreneurship permeates all parts of the company in order to induce strategic behaviors by all organizational members. In measuring the success of corporate venturing activities, both financial and strategic objectives should be considered.

Most entrepreneurial firms need to have an entrepreneurial orientation: the methods, practices, and decision-making styles that strategic managers use to act entrepreneurially. Five dimensions of entrepreneurial orientation are found in firms that pursue corporate venture strategies. Autonomy, innovativeness, proactiveness, competitive aggressiveness, and risk taking each make a unique contribution to the pursuit of new opportunities. When deployed effectively, the methods and practices of an entrepreneurial orientation can be used to engage successfully in corporate entrepreneurship and new venture creation. However, strategic managers must remain mindful of the pitfalls associated with each of these approaches.

Summary Review Questions

1. What is meant by the concept of a continuum of radical and incremental innovations?

2. What are the dilemmas that organizations face when deciding what innovation projects to pursue? What steps can organizations take to effectively manage the innovation process?

3. What is the difference between focused and dispersed approaches to corporate entrepreneurship?

4. How are business incubators used to foster internal corporate venturing?

5. What is the role of the product champion in bringing a new product or service into existence in a corporation? How can companies use product champions to enhance their venture development efforts?

6. Explain the difference between proactiveness and competitive aggressiveness in terms of achieving and sustaining competitive advantage.

7. Describe how the entrepreneurial orientation (EO) dimensions of innovativeness, proactiveness, and risk taking can be combined to create competitive advantages for entrepreneurial firms.
Select two different major corporations from two different industries (you might use Fortune 500 companies to make your selection). Compare and contrast these organizations in terms of their entrepreneurial orientation.

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<th>Entrepreneurial Orientation</th>
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**Based on Your Comparison:**
1. How is the corporation's entrepreneurial orientation reflected in its strategy?
2. Which corporation would you say has the stronger entrepreneurial orientation?
3. Is the corporation with the stronger entrepreneurial orientation also stronger in terms of financial performance?

1. Select a firm known for its corporate entrepreneurship activities. Research the company and discuss how it has positioned itself relative to its close competitors. Does it have a unique strategic advantage? Disadvantage? Explain.
2. Explain the difference between product innovations and process innovations. Provide examples of firms that have recently introduced each type of innovation. What are the types of innovations related to the strategies of each firm?
3. Using the Internet, select a company that is listed on the NASDAQ or New York Stock Exchange. Research the extent to which the company has an entrepreneurial culture. Does the company use product champions? Does it have a corporate venture capital fund? Do you believe its entrepreneurial efforts are sufficient to generate sustainable advantages?
4. How can an established firm use an entrepreneurial orientation to enhance its overall strategic position? Provide examples.

**Innovation activities are often aimed at making a discovery or commercializing a technology ahead of the competition. What are some of the unethical practices that companies could engage in during the innovation process? What are the potential long-term consequences of such actions?**

2. Discuss the ethical implications of using entrepreneurial policies and practices to pursue corporate social responsibility goals. Are these efforts authentic and genuine or just an attempt to attract more customers?
References


11. Sharma, op. cit.


15. Leifer et al., op. cit.


