

# Corporate Entrepreneurship

## ss 5-8

Mikkel Draebye

# Agenda Session 5-8

- Where are we, What are we doing
- Flashback: What's so interesting about Rob?
- Recall: Definitions of entrepreneurship
- Entrepreneurial Attitude : October Sky
- Relevance of e-ship

# Where are we?

- Course is about understanding corporate entrepreneurship; How to foster, stimulate and nurture it
- The course is structured in 5 parts
  1. The nature of entrepreneurship from a behavioral (R&R) and attitudinal (October sky) point of view ( ch 1&2, session 1-6)
  2. The relevance of entrepreneurship (ch 1&2, session 7-8)
  3. The uniqueness (and non) of corporate entrepreneurship (ch. 1&2, session 9-10)
  4. The definition, measurement and manifestations of corporate entrepreneurship (ch. 2&3, session 11-12)
  5. How foster corporate entrepreneurship (ch 4-15, session 13-44)

# R&R Case

- So, remind me what Rob did that was “entrepreneurial” ?

# Some definitions of entrepreneurship

*“The pursuit of opportunity beyond the resources you currently control”*

Howard Stevenson (1988)

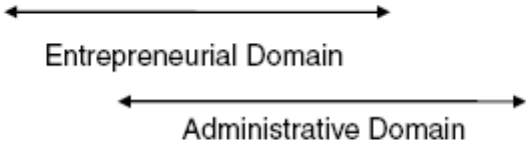
*“The process of creating value by bringing together a unique combination of resources to exploit an opportunity”*

Howard Stevenson (1986)

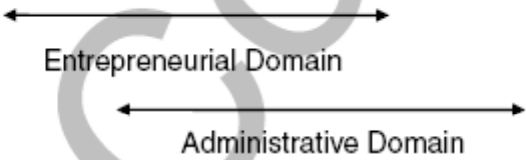
*“Create and build a vision from practically nothing”*

Jeffrey Timmons (2000)

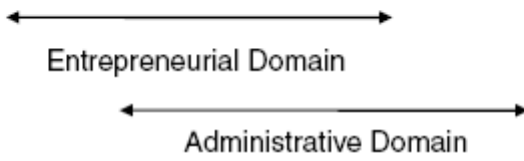
# Promoter vs. Trustee Orientation

Promoter	STRATEGIC ORIENTATION	Trustee
Driven by perception of opportunity	 <p>Entrepreneurial Domain</p> <p>Administrative Domain</p>	Driven by resources currently controlled
<p><b>Pressures toward this side</b></p> <p>Diminishing opportunity streams</p> <p>Rapidly changing:</p> <ul style="list-style-type: none"> <li>Technology</li> <li>Consumer economics</li> <li>Social values</li> <li>Political rules</li> </ul>		<p><b>Pressures toward this side</b></p> <ul style="list-style-type: none"> <li>Social contracts</li> <li>Performance measurement criteria</li> <li>Planning systems and cycles</li> </ul>

# Promoter vs. Trustee Orientation

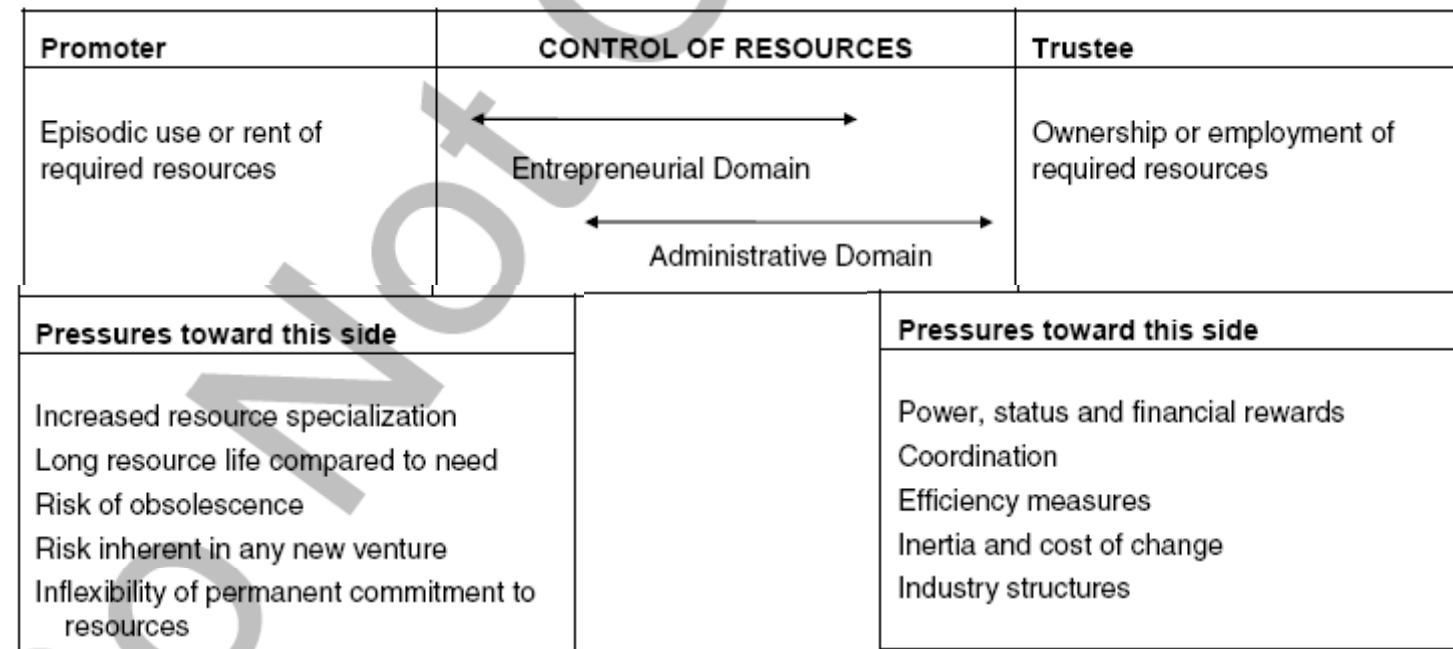
Promoter	COMMITMENT TO OPPORTUNITY	Trustee
Revolutionary with short duration		Evolutionary of long duration
<p><b>Pressures toward this side</b></p> <ul style="list-style-type: none"> <li>Action orientation</li> <li>Short decision windows</li> <li>Risk management</li> <li>Limited decision constituencies</li> </ul>	<p><b>Pressures toward this side</b></p> <ul style="list-style-type: none"> <li>Acknowledgment of multiple constituencies</li> <li>Negotiation of strategy</li> <li>Risk reduction</li> <li>Management of fit</li> </ul>	

# Promoter vs. Trustee Orientation

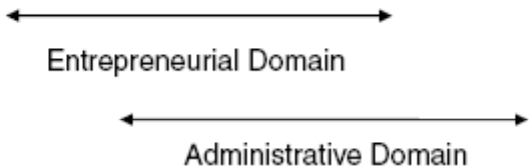
Promoter	COMMITMENT OF RESOURCES	Trustee
Multistaged with minimal exposure at each stage		Single-staged with complete commitment upon decision
<p><b>Pressures toward this side</b></p> <ul style="list-style-type: none"> <li>Lack of predictable resource needs</li> <li>Lack of long-term control</li> <li>Social needs for more opportunity per resource unit</li> <li>International pressure for more efficient resource use</li> </ul>		<p><b>Pressures toward this side</b></p> <ul style="list-style-type: none"> <li>Personal risk reduction</li> <li>Incentive compensation</li> <li>Managerial turnover</li> <li>Capital allocation systems</li> <li>Formal planning systems</li> </ul>



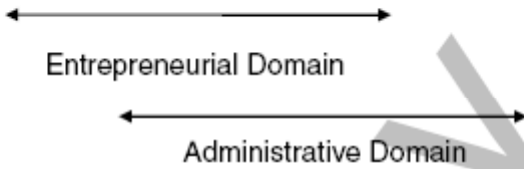
# Promoter vs. Trustee Orientation



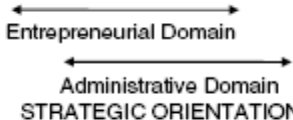
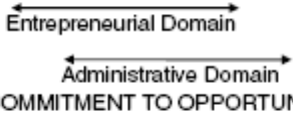
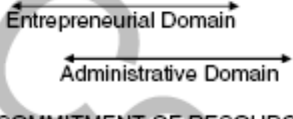
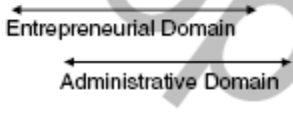
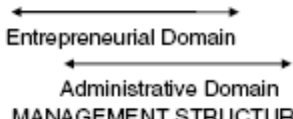
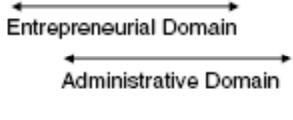
# Promoter vs. Trustee Orientation

Promoter	MANAGEMENT STRUCTURE	Trustee
Flat with multiple informal networks	 <p>Entrepreneurial Domain</p> <p>Administrative Domain</p>	Formalized hierarchy
<p><b>Pressures toward this side</b></p> <p>Coordination of noncontrolled resources            Challenge to legitimacy of owner's control            Employees' desire for independence</p>		<p><b>Pressures toward this side</b></p> <p>Need for clearly defined authority and responsibility            Organizational culture            Reward Systems            Management theory</p>

# Promoter vs. Trustee Orientation

Promoter	REWARD PHILOSOPHY	Trustee
Value-driven Performance-based Team-oriented		Security-driven Resource-based Promotion-oriented
<b>Pressures toward this side</b>		<b>Pressures toward this side</b>
Financial backers Individual expectations Competition		Societal norms Impacted information Demands of public shareholders

# Promoter vs. Trustee Orientation

Pressures Toward This Side	Promoter	Key Business Dimension	Trustee	Pressures Toward This Side
Diminishing opportunity streams Rapidly changing: Technology Consumer economics Social values	Driven by perception of opportunity	 Entrepreneurial Domain Administrative Domain <b>STRATEGIC ORIENTATION</b>	Driven by resources currently controlled	Social contracts Performance measurement criteria Planning systems and cycle
Action orientation Short decisions windows Risk management Limited decision constituencies	Revolutionary with short duration	 Entrepreneurial Domain Administrative Domain <b>COMMITMENT TO OPPORTUNITY</b>	Evolutionary of long duration	Acknowledgment of multiple constituencies Negotiation of strategy Risk reduction Management of fit
Lack of predictable resource needs Lack of long-term control Social need for more opportunity per resource unit Interpersonal pressure for more efficient resource use	Multistaged with minimal exposure at each stage	 Entrepreneurial Domain Administrative Domain <b>COMMITMENT OF RESOURCES</b>	Single-staged with complete commitment upon decision	Personal risk reduction Incentive compensation Managerial turnover Capital allocation systems Formal planning systems
Increased resource specialization Long resource life compared to need Risk obsolescence Risk inherent in any new venture Inflexibility of permanent commitment to resources	Episodic use or rent of required resources	 Entrepreneurial Domain Administrative Domain <b>CONTROL OF RESOURCES</b>	Ownership or employment of required resources	Power, status, and financial rewards Coordination Efficiency measures Inertia and cost of change Industry structures
Coordination of key noncontrolled resources Challenge to legitimacy of owner's control Employees' desire for independence	Flat with multiple informal networks	 Entrepreneurial Domain Administrative Domain <b>MANAGEMENT STRUCTURE</b>	Formalized hierarchy	Need for clearly defined authority and responsibility Organizational culture Reward systems Management theory
Individual expectations Competition Increased perception of personal wealth creation possibilities	Value-based Team-based Unlimited	 Entrepreneurial Domain Administrative Domain <b>COMPENSATION/REWARD POLICY</b>	Resource-based Driven by short-term data Promotion Limited amount	Societal norms IRS regulations Impacted information Search for simple solutions for complex problems Demands of public shareholders

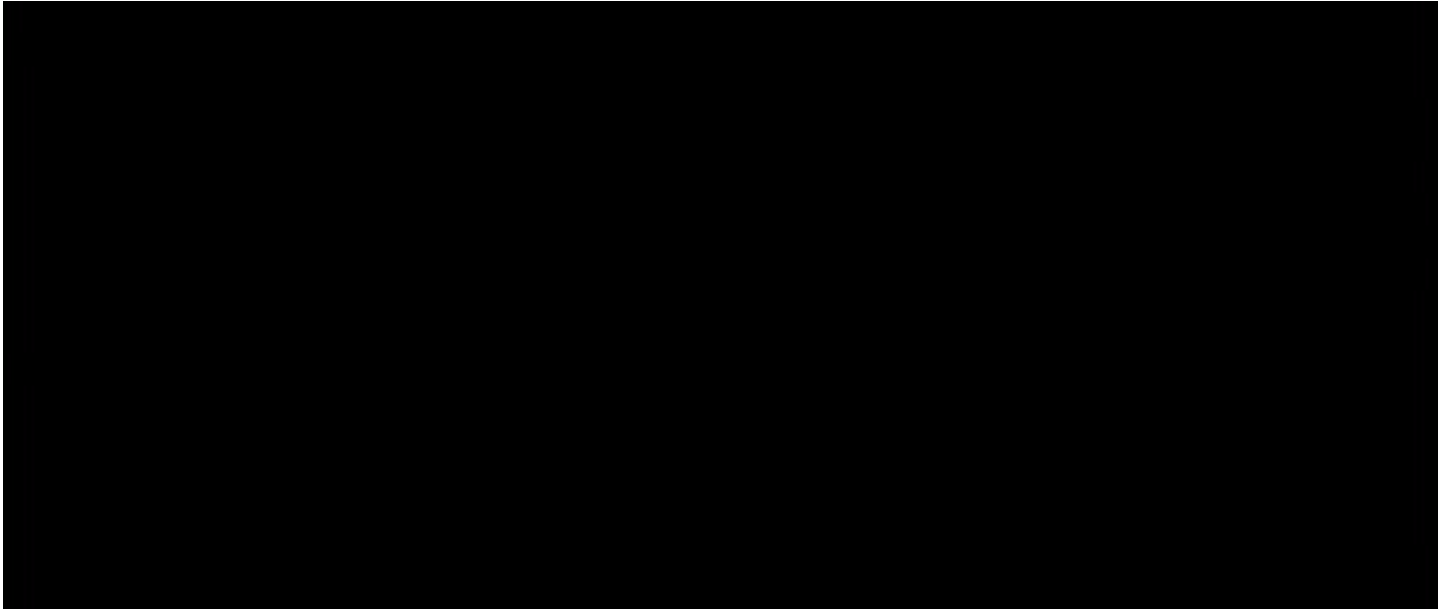
It makes good sense to look at entrepreneurship as an attitude or orientation. As such it must be observed as it is interpreted by the entrepreneur.

## “The Entrepreneurial Mindset”

A collective investigation into the nature of entrepreneurship and some context conditions

- What is that entrepreneurs do that makes them entrepreneurial?
- What is that entrepreneurs do that make them succeed?
- What is it that facilitates entrepreneurial success?

# Part 1: Intro and Context



# Part 2: Idea & Vision



# Part 3: Starting up





# Part 4: Team and resources



# Part 5: Resource acquisition



# Part 6: Perseverance



# Part 7: Happy ending



# Conclusions from video clips

- It's always possible
- You are not born an entrepreneur, you become one
- Have a clear vision and goal
- Put a team together
- Don't be put off by resource and competence constraints: Beg, Borrow and Steal
- Share vision and show leadership
- Find sponsors and mentors
- Tolerate failure
- Tolerate risk
- Try, try and try again
- Learn from mistakes
- Look for opportunities where other see landfills
- Defy social pressure
- Believe that you have the ability to change things
- Don't underestimate yourself
- Be open to outside ideas
- Share success

This corresponds very well to what we in academia normally highlight as themes of desirable and acquirable attitudes and behaviors

- Commitment and determination
- Leadership
- Opportunity obsession
- Tolerance of risk, ambiguity and uncertainty
- Creativity, self-reliance and adaptability
- Motivation to excel

# The academic perspective

**Is Entrepreneurship Relevant?**

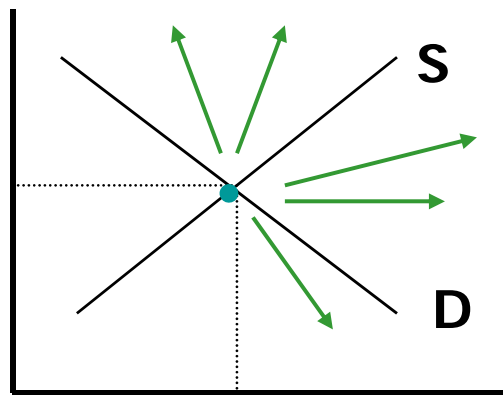


# Agenda

- Do we really need this entrepreneurship thing
  - (Global) Economic Perspective
    - Schumpeter & Kirzner
    - GEM Results
  - Firm Perspective
    - Discussion of models presented in chapter 1
- Not in the Book : Can entrepreneurship be encouraged?
  - Role of Governments
  - Ecosystem
  - Universities

# Entrepreneurship & Economic Thought

Joseph Schumpeter (1930s)

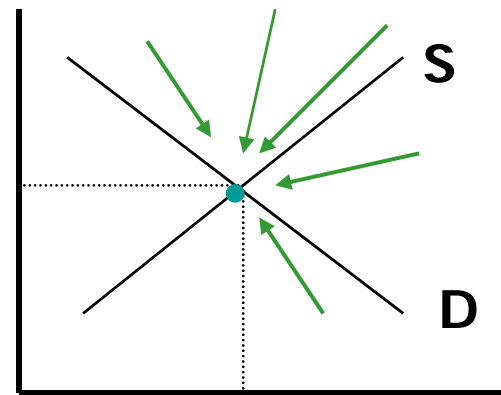


## "CREATIVE DESTRUCTION"

Entrepreneurship moves market away from equilibrium

New combinations: new goods, methods of production, new markets, sources of supply, organizations.

Israel Kirzner (1970s)



## "ENTREPRENEURIAL DISCOVERY"

Entrepreneurship moves market toward equilibrium.

Entrepreneur alert to opportunities that already exist and are waiting to be noticed.

- Through the process of creative destruction, independent entrepreneurs create new economic combinations that enhance productivity growth and raise living standards (Schumpeter, 1934).
- The contribution of independent entrepreneurship to living standards, goes beyond that created by improvements in the way in which capital, labor and technology are employed by professionally managed firms.

- The determination of whether independent entrepreneurship enhances economic growth above that generated by the activities of professionally managed firms is not a trivial issue.
- These entrepreneurial profits result from organizing “the relationship between factors of production and market opportunities in ways that create value that would not otherwise have been generated.”

- The thesis is that individuals are less likely to create new combinations that generate surplus value if they are agents in professionally managed organizations than they are if they are independent entrepreneurs (Schumpeter, 1934).
- Agency theory provides a framework for understanding why this is the case.

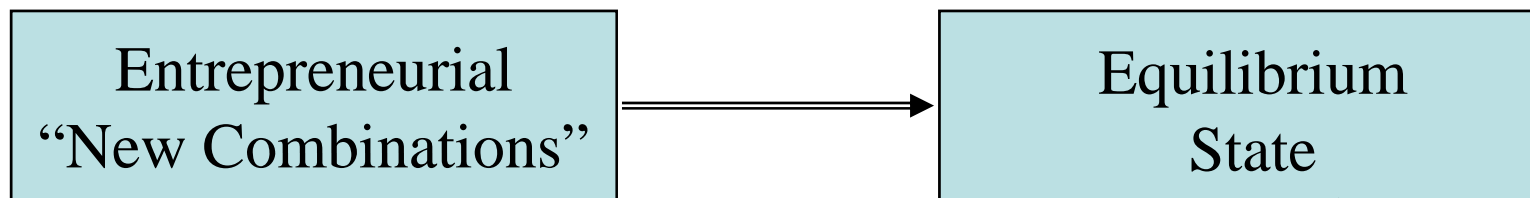
- The incentive for individuals with entrepreneurial ability to act entrepreneurially is greater when they form their own organizations than when they work for professionally managed ones.
- This means that when individuals with the ability to be entrepreneurs leave large organizations to become principals of their own firms, the economy has more people in it that are in a position to create new combinations that add surplus value.
- Aggregated across the economy this situation leads to real economic growth.

- Schumpeter argued that new combinations do not usually come from old firms but from new firms producing beside them.
- Entrepreneurs and managers require different incentives, and that the provision of appropriate incentives through the opportunity to found firms has enhanced the growth of real income in the United States since the end of WWII in 1946.

# *Two Views of the Role of Entrepreneur*

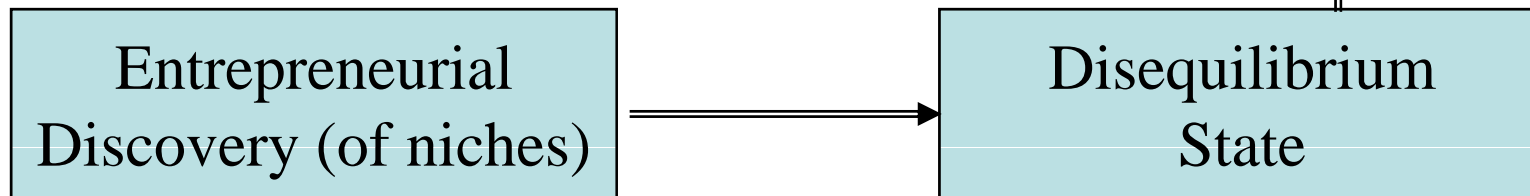
## 1. Disequilibrators (DQ)

Schumpeter: Entrepreneur  
as force in “creative  
destruction of an equilibrium”



## 2. Equilibrators (EQ)

Austrian School”  
Entrepreneur as “discover” of  
disequilibrium (niches not served)



DQ

EQ





Some empirical data

# GLOBAL ENTREPRENEURSHIP MONITOR

Countries Involved: 1999, 2000, 2001, & 2002

[34 national teams in 2002]

## 1999 Teams [10]

- Canada
- Denmark
- Finland
- France
- Germany
- Italy
- Israel
- Japan
- United Kingdom
- United States

## 2000 Teams [11]

- Argentina
- Australia
- Belgium
- Brazil
- India
- Ireland
- Korea
- Norway
- Singapore
- Spain
- Sweden
- UK: Scotland
- UK: Wales

## 2001 Teams [8]

- Hungary
  - Mexico
  - Netherlands
  - New Zealand
  - Poland
  - Portugal\*
  - Russia
  - South Africa
- \*Portugal was not involved in 2002.

## 2002 Teams [9]

- Chile
- China
- Chinese Taipei (Taiwan)
- Croatia
- Hong Kong (SAR, China)
- Iceland
- Slovenia
- Switzerland
- Thailand

# **GEM Program Objectives**

- Are there national differences in entrepreneurial activity?
- Is entrepreneurial activity related to national economic growth?
- Why are some countries more entrepreneurial than others?
- What can be done to enhance entrepreneurial activity?

# What is entrepreneurship?

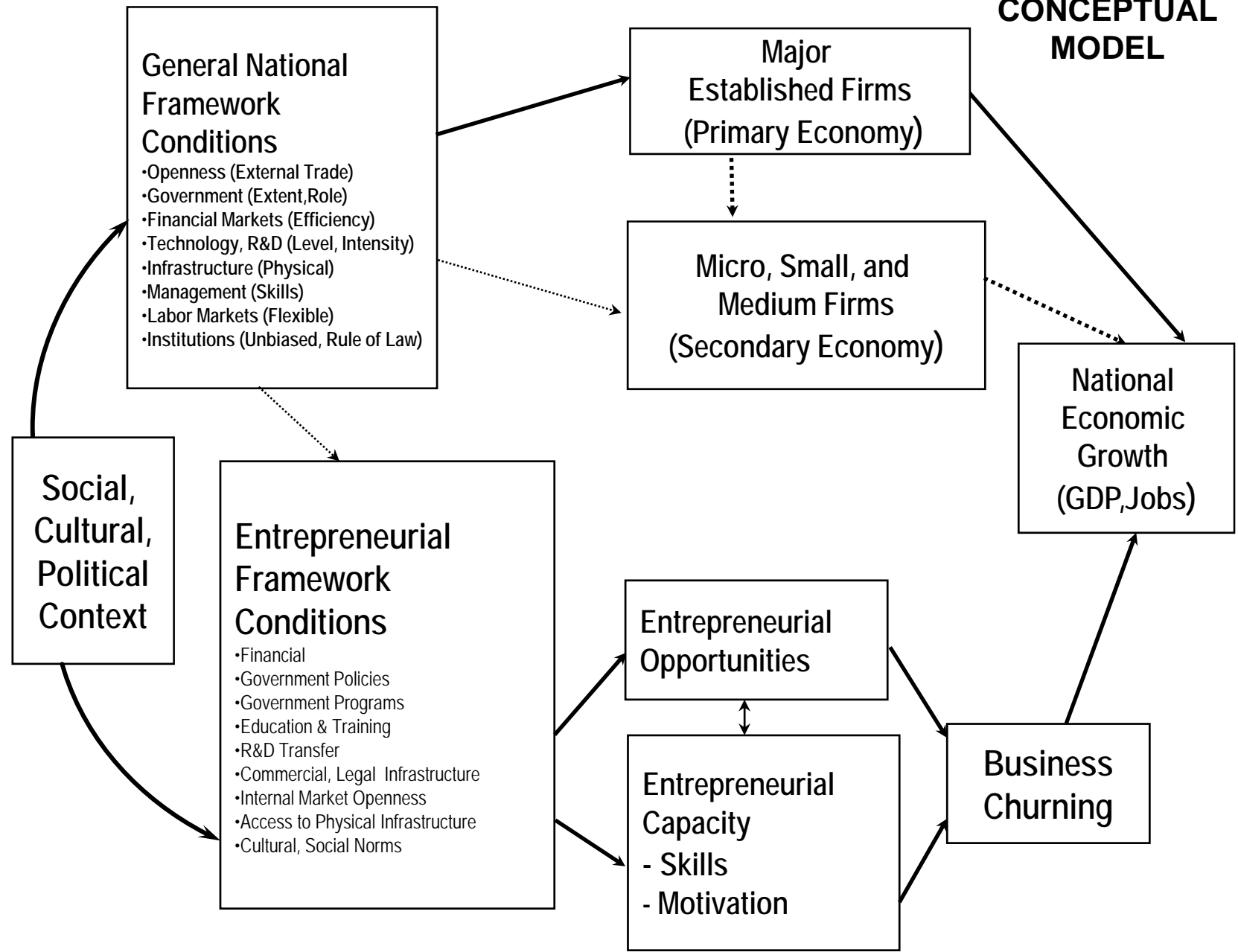
Who or what is entrepreneurial?

- Person
- Business
- Industry
- Entire society

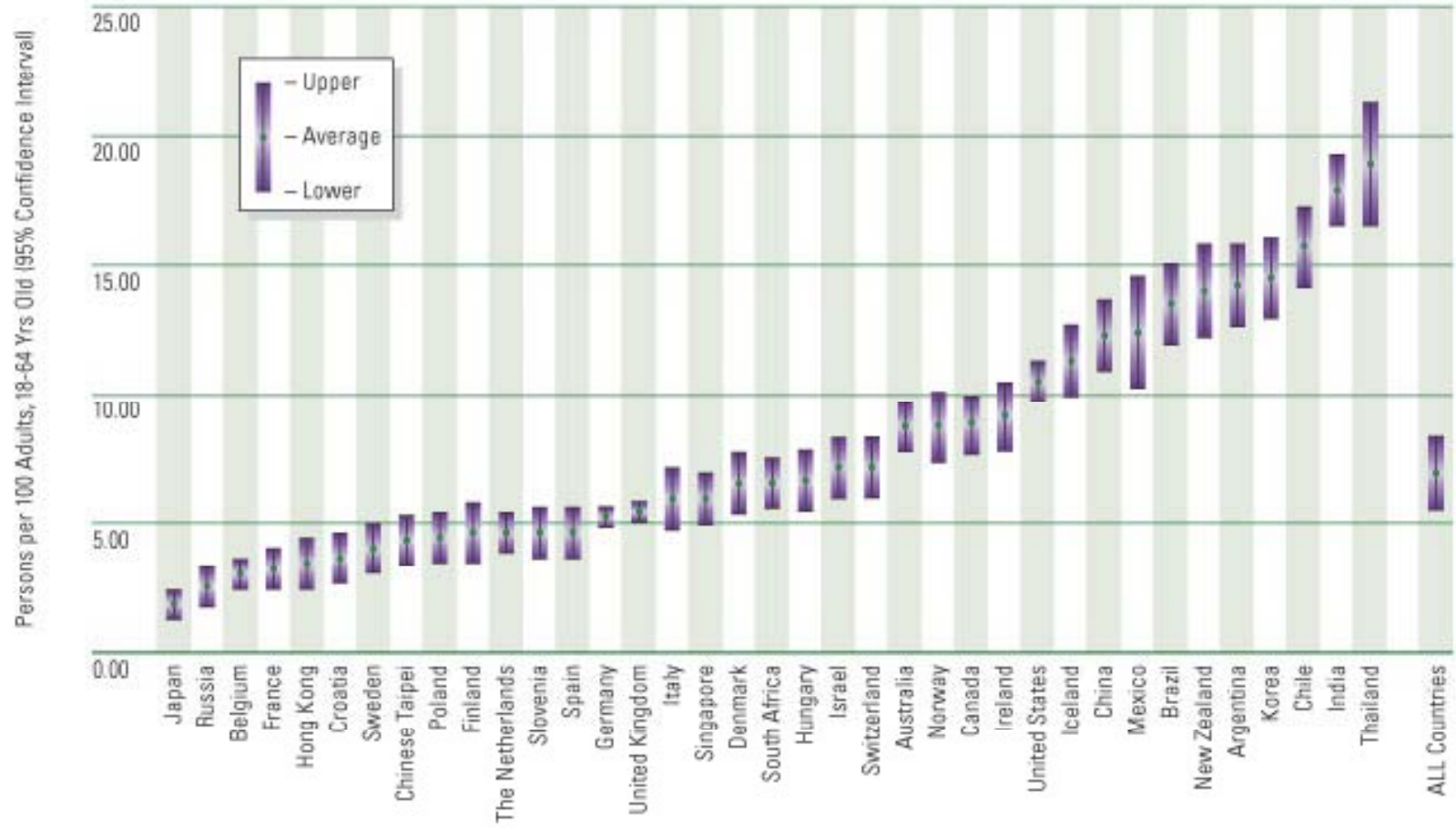
What makes “it” entrepreneurial?

- Special trait
- New and innovative ideas, products, services
- High growth activity
- Exploitation of opportunity, people
- Creation of new markets, new economic sectors

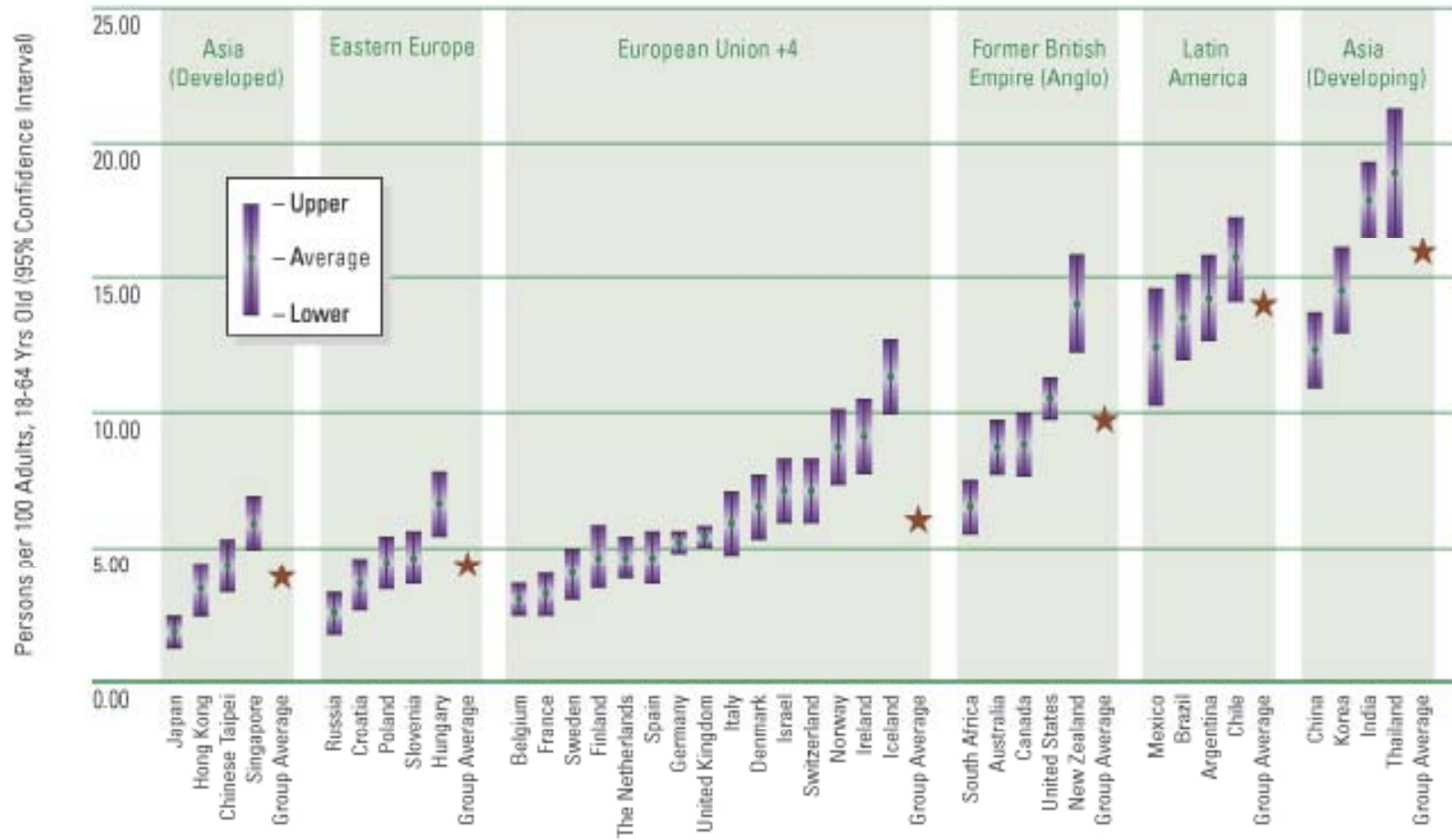
**GEM  
CONCEPTUAL  
MODEL**



**FIGURE 1: TOTAL ENTREPRENEURIAL ACTIVITY (TEA) BY COUNTRY**



**FIGURE 2: TOTAL ENTREPRENEURIAL ACTIVITY (TEA) BY GLOBAL REGION**



# **Opportunity vs. Necessity**

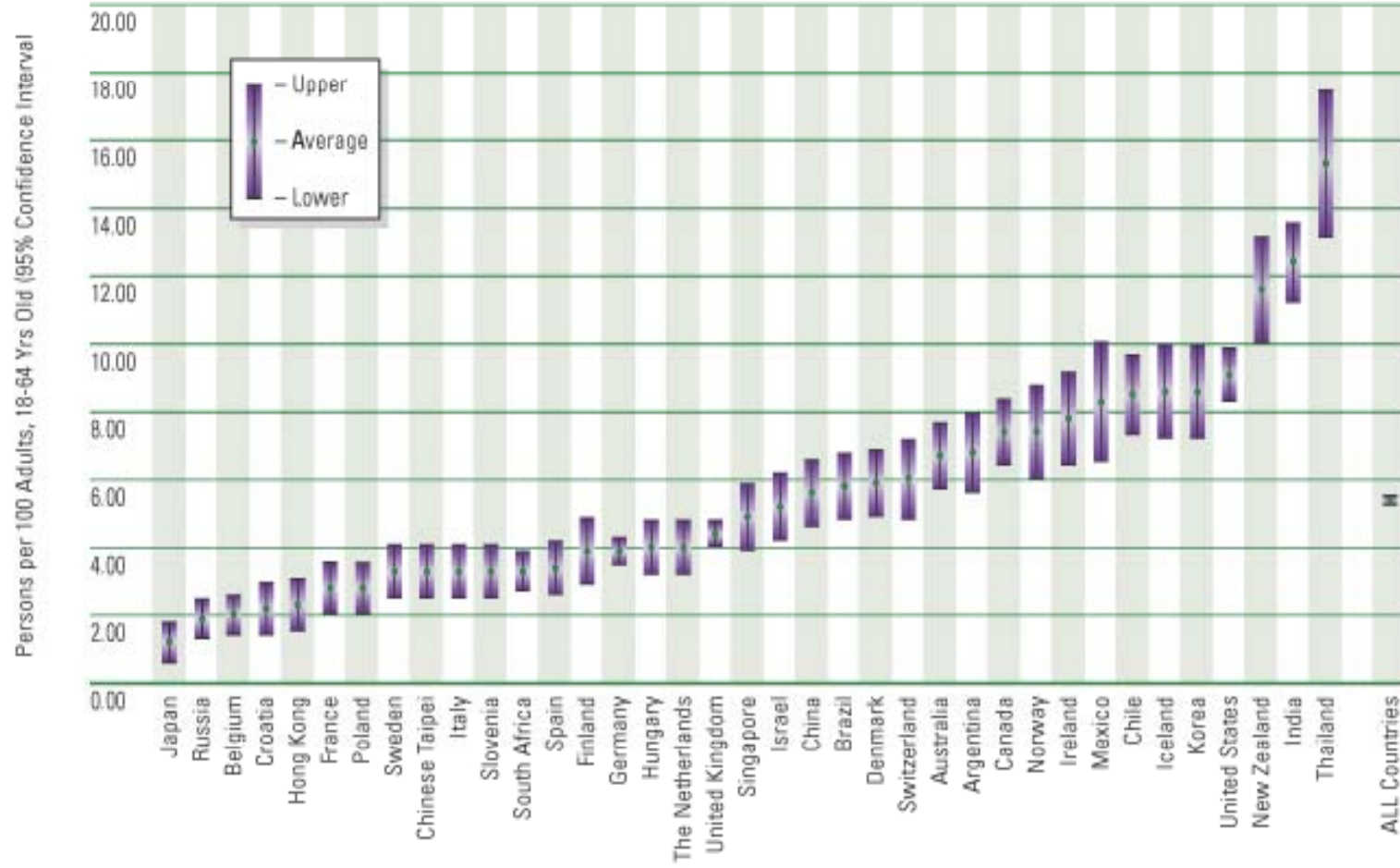
**Are you involved**

- To take advantage of a business opportunity or**
- Because you have no better choices for work?**

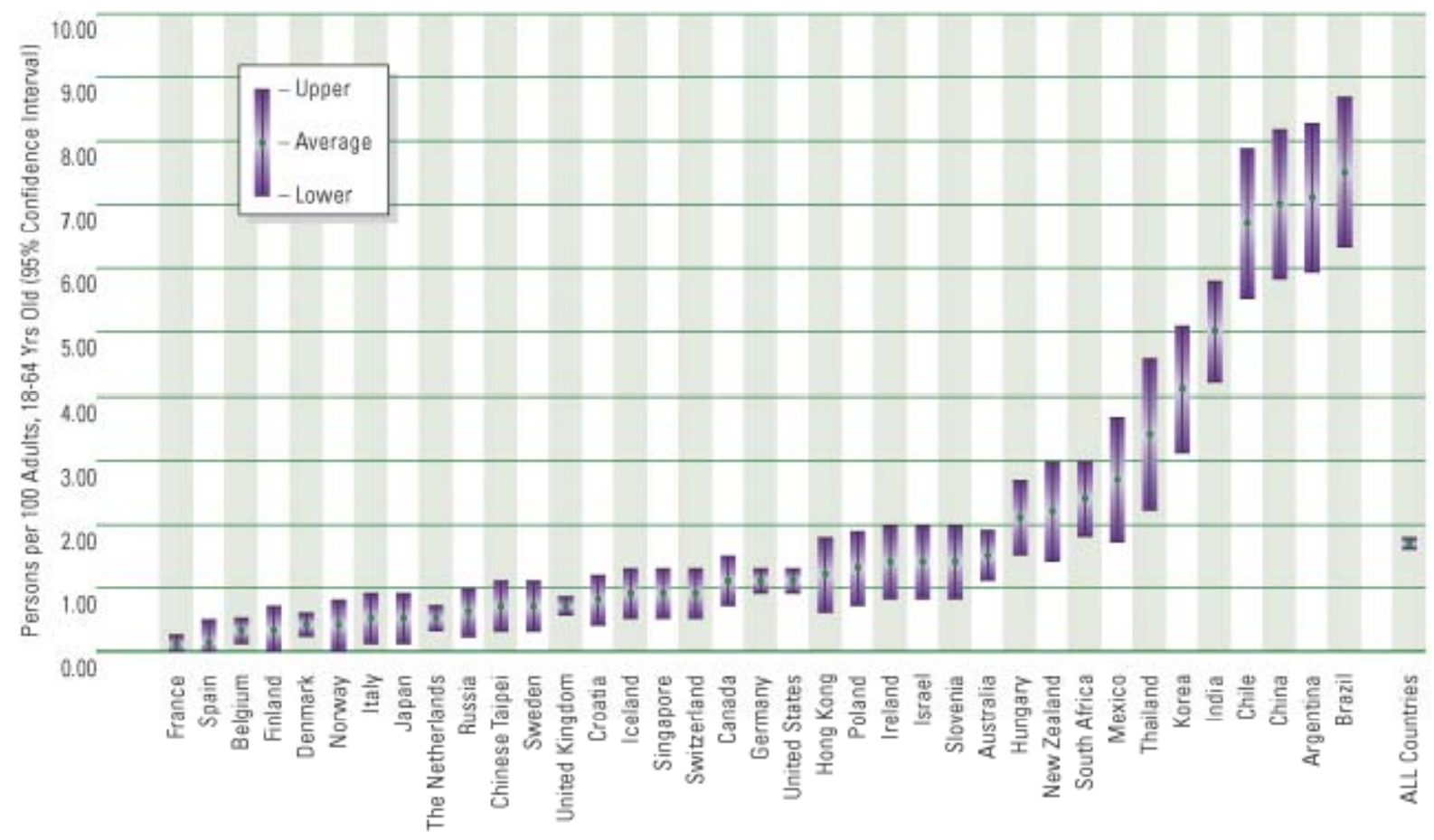
**Willing volunteers or draftees?**



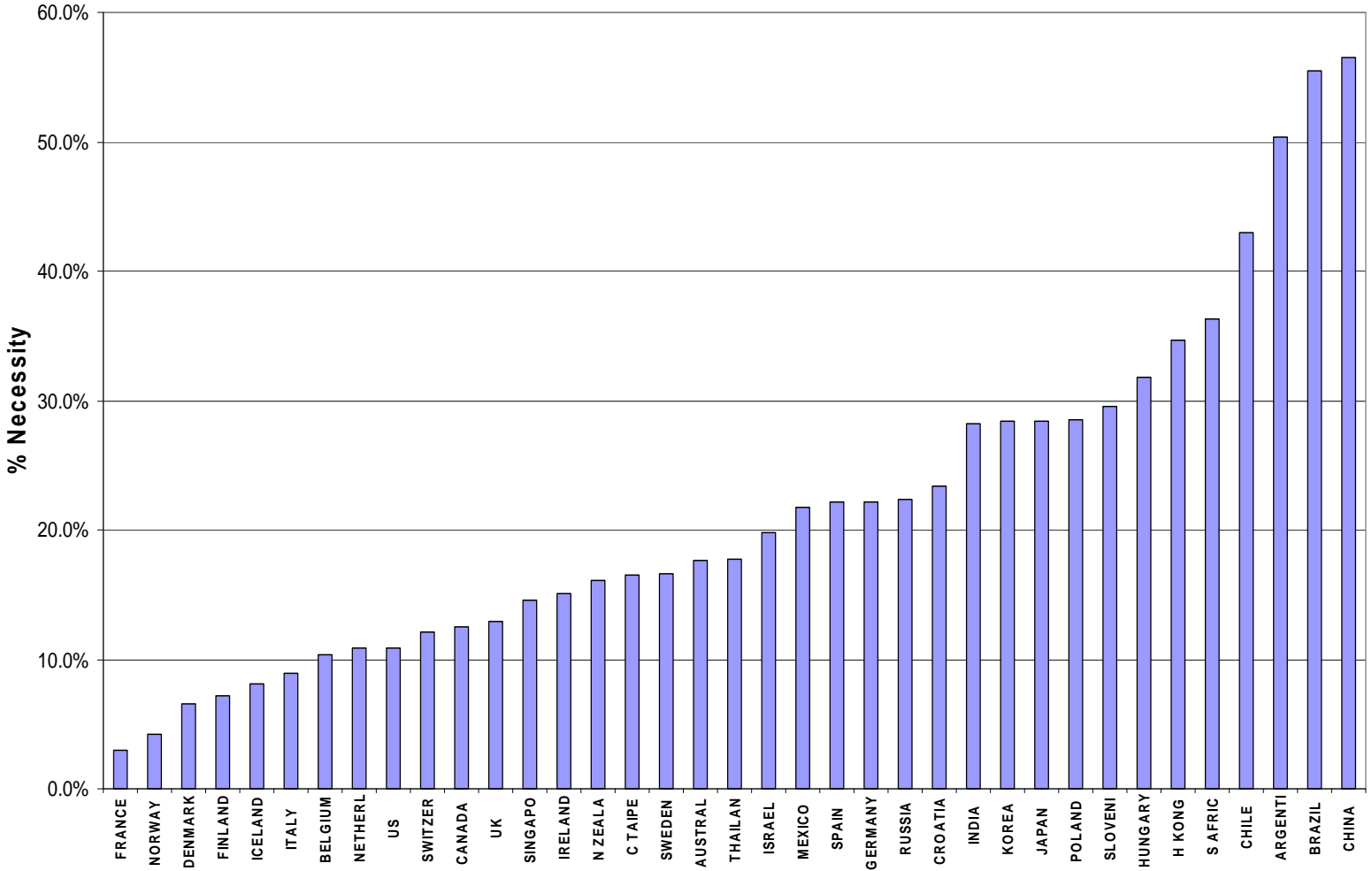
**FIGURE 4: OPPORTUNITY-BASED ENTREPRENEURIAL ACTIVITY BY COUNTRY**



**FIGURE 5: NECESSITY-BASED ENTREPRENEURIAL ACTIVITY BY COUNTRY**



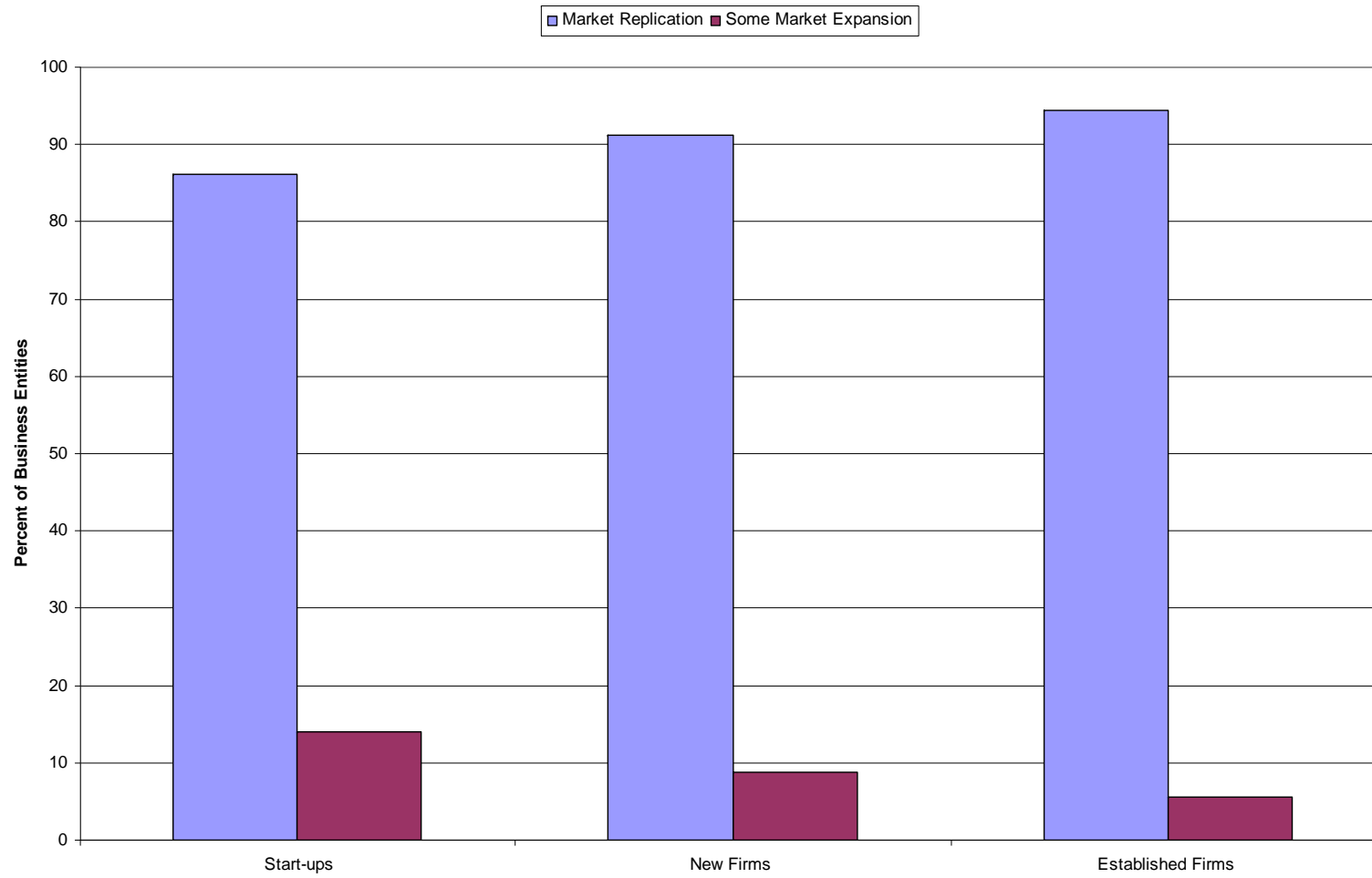
# Necessity Entrepreneurship as % of Total : GEM 2002



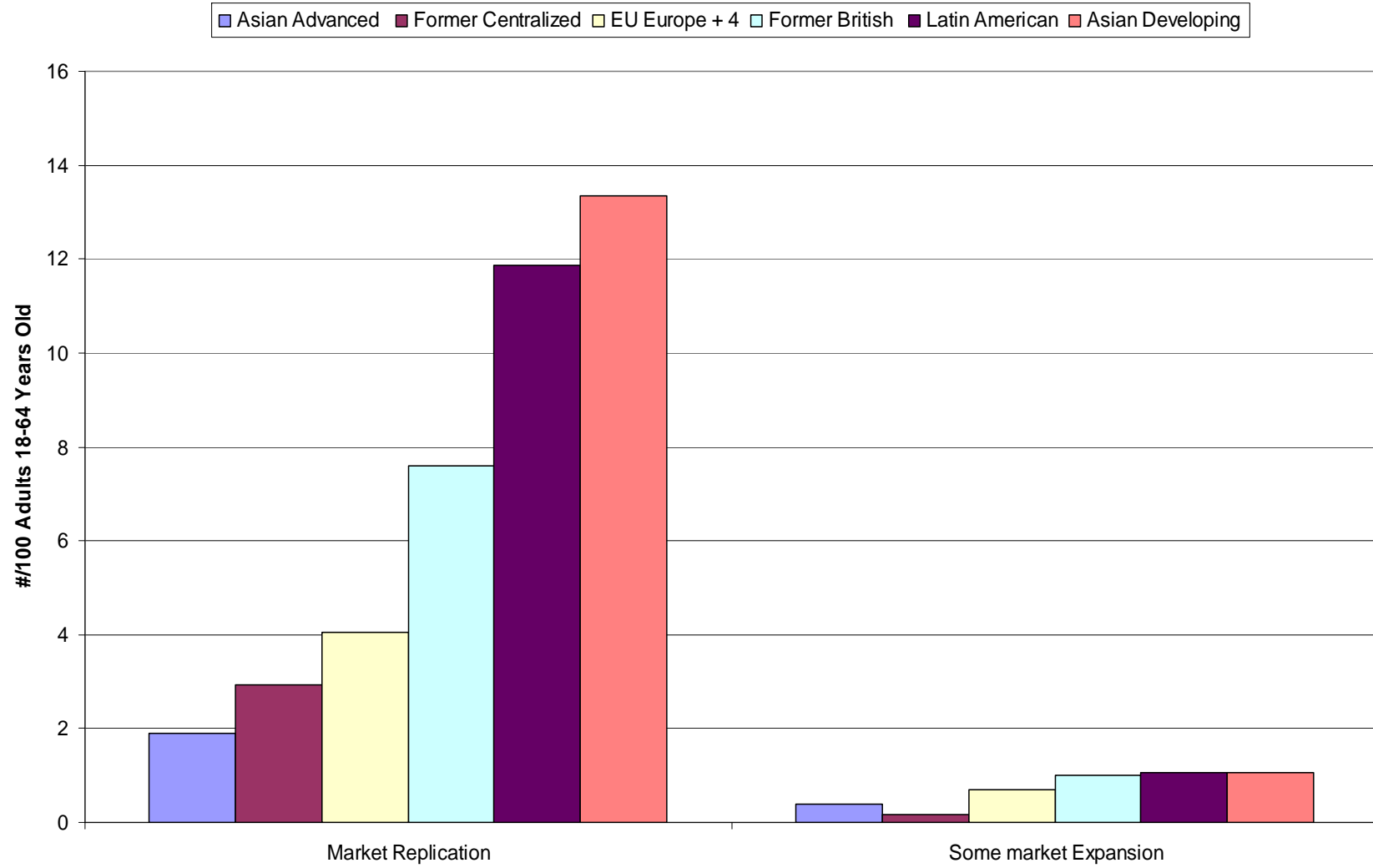
# Market Replication vs. Market Expansion

- Market Replication
  - Customers know product or service well
  - Lots of competition
  - Using established technology or procedures
- Market Expansion, Creation
  - Customers unfamiliar with product or service
  - No competition
  - New technology or procedures

Market Impact by Firm Life Course Stage



### TEA Entities - Replication versus Market Expansion by Global Type

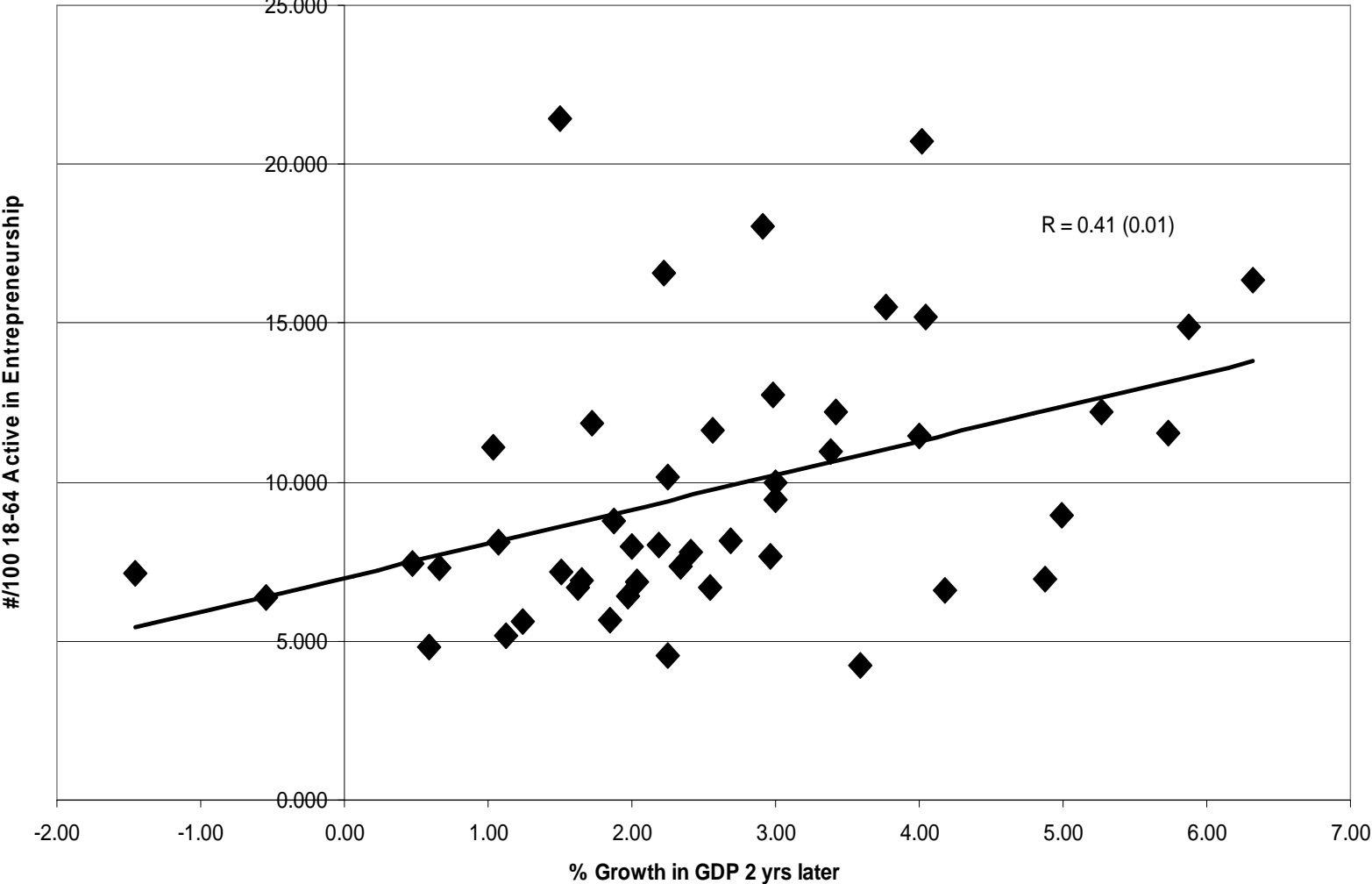


# TEA Indices and National Economic Growth

[GEM 2000,2001,2002 Pooled Data; \* = statistical significance]

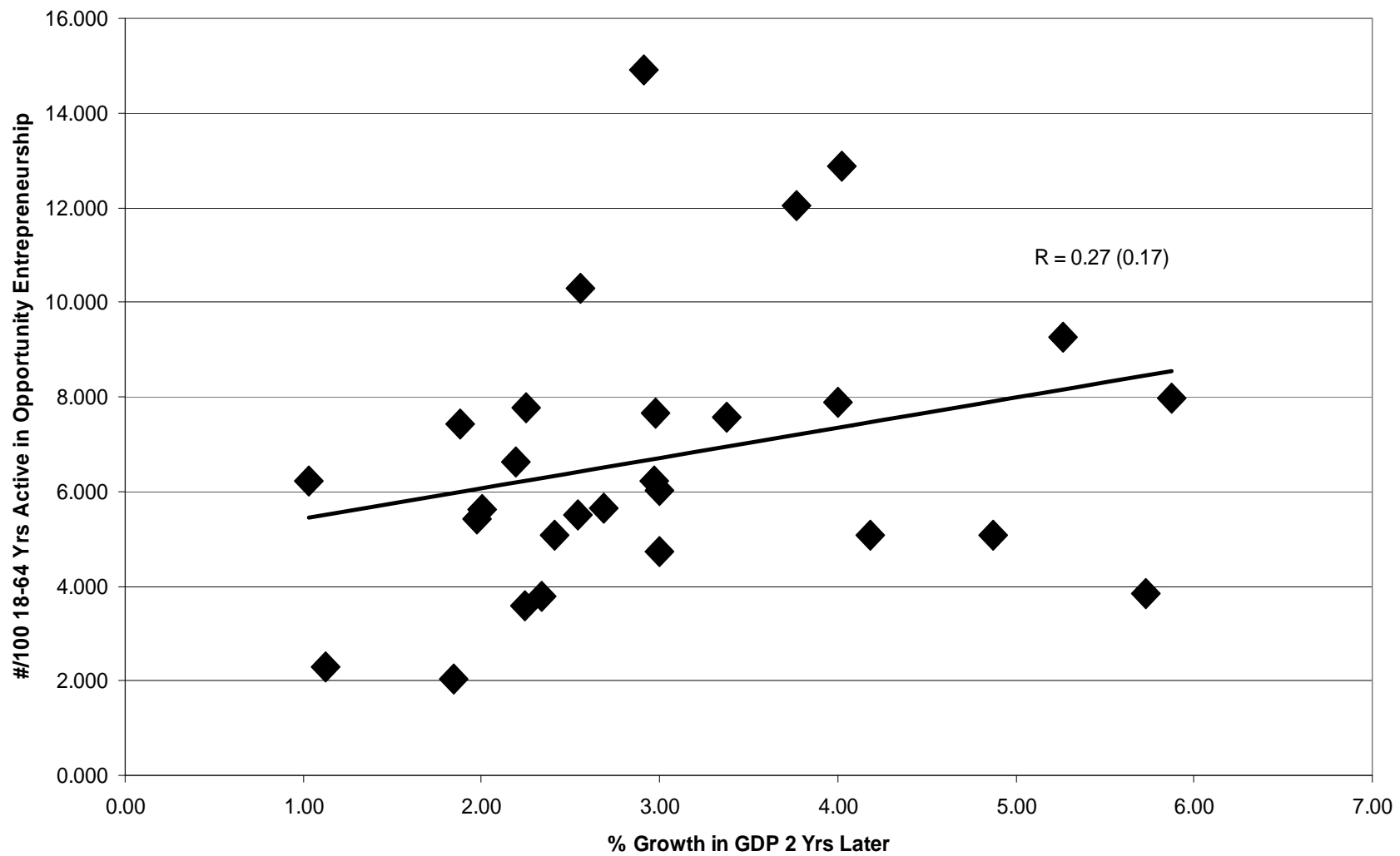
	Concurrent	One-year lag	Two-year lag
TEA Overall	0.19	0.22*	0.42**
TEA Opportunity	0.20	0.22	0.26
TEA Necessity	0.23	0.35**	0.49**

TEA Overall and National Economic Growth: 2 Yr Lag

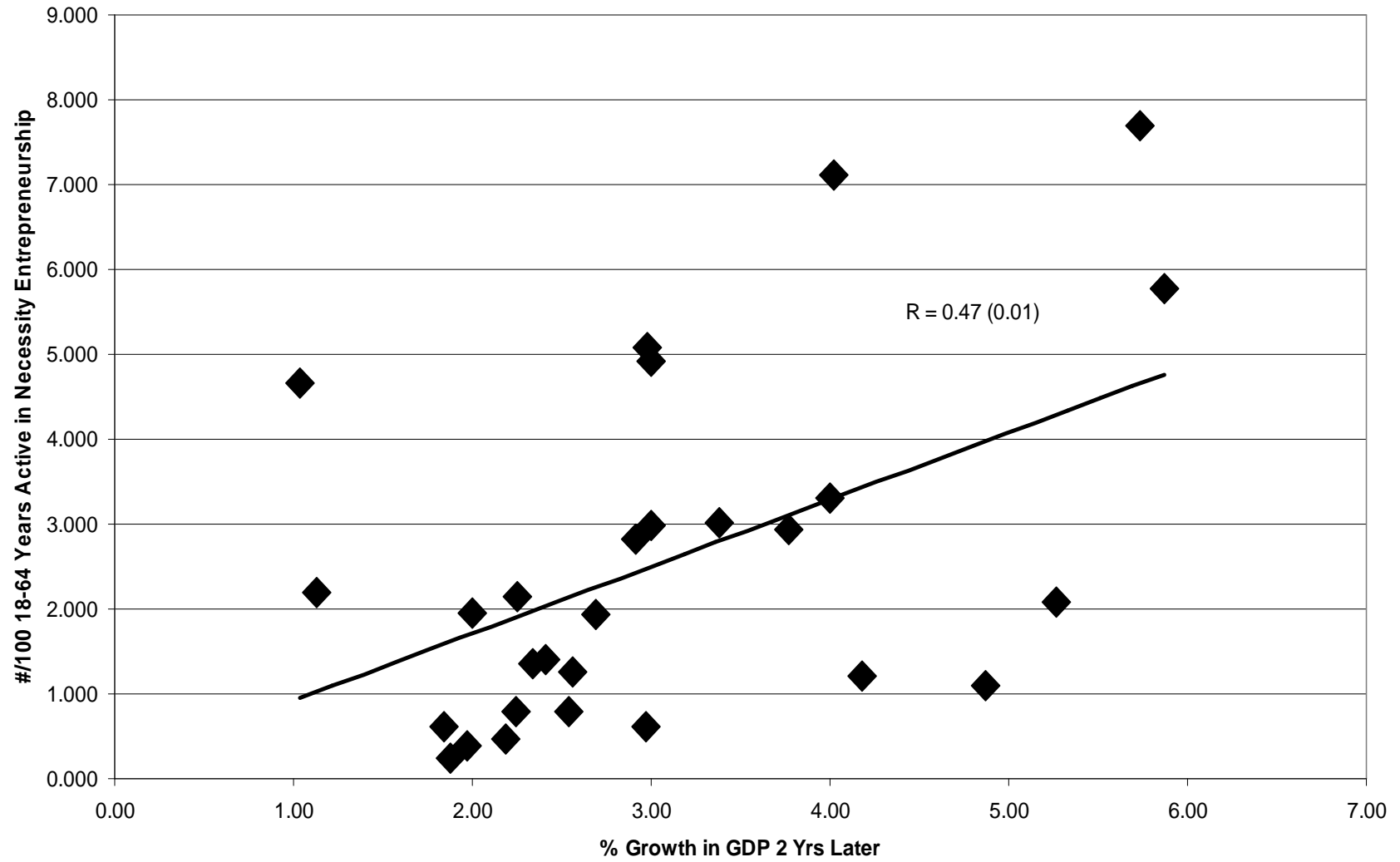




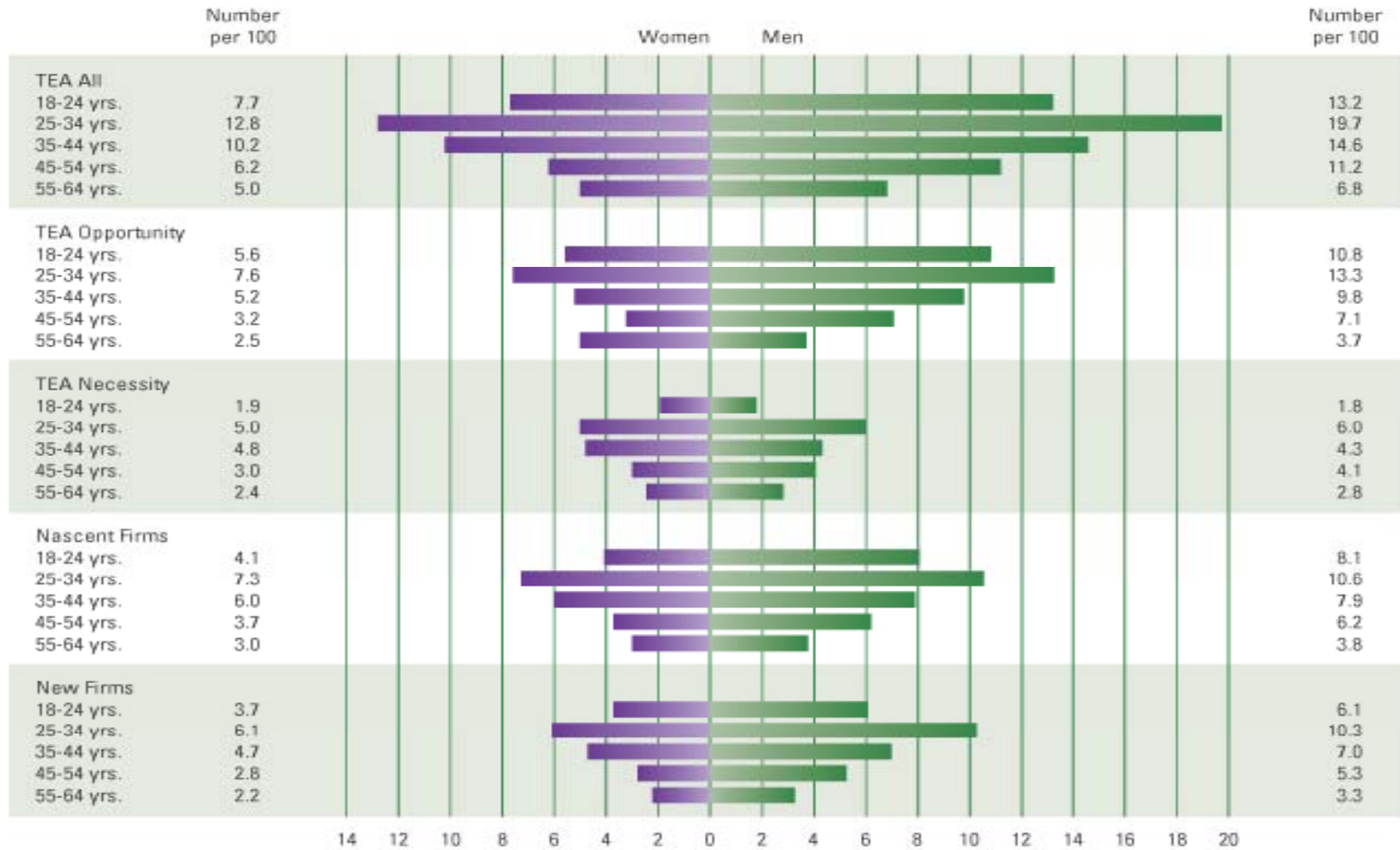
TEA Opportunity and National Economic Growth: 2 Yr Lag



TEA Necessity and National Economic Growth: 2 Yr Lag

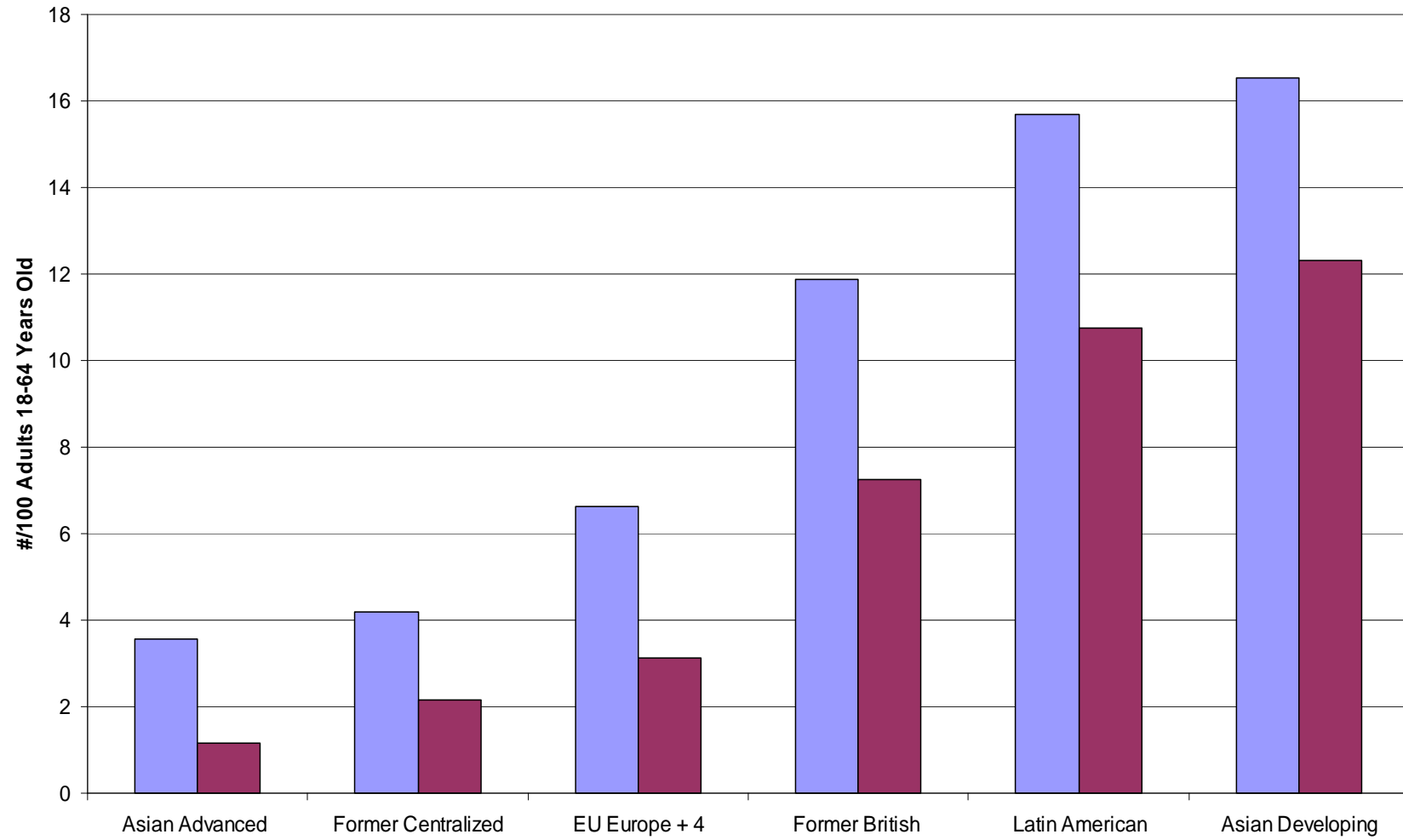


**FIGURE 7: ENTREPRENEURIAL ACTIVITY BY GENDER AND AGE**

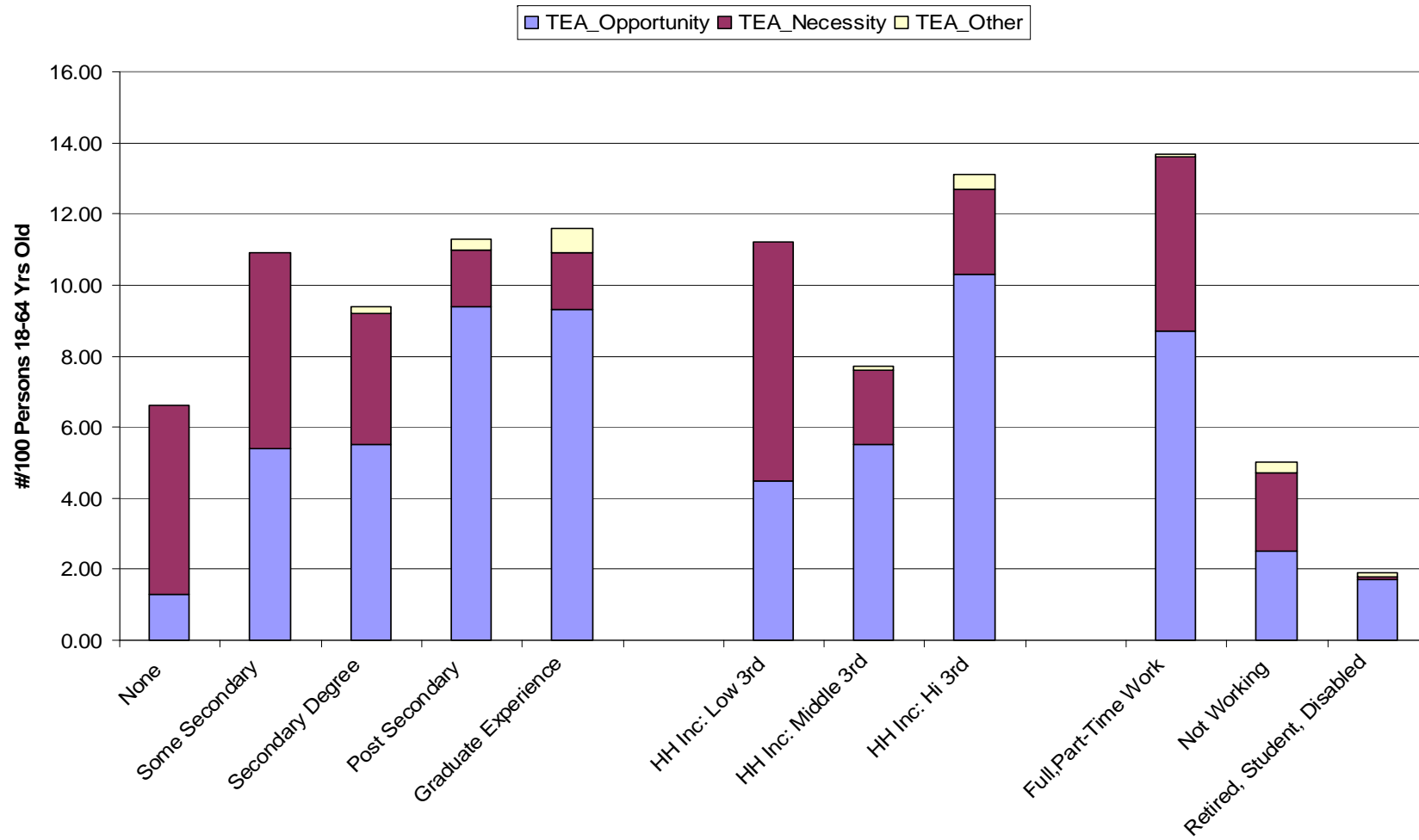


### Entrepreneurial Activity [TEA] by Gender by Global Type

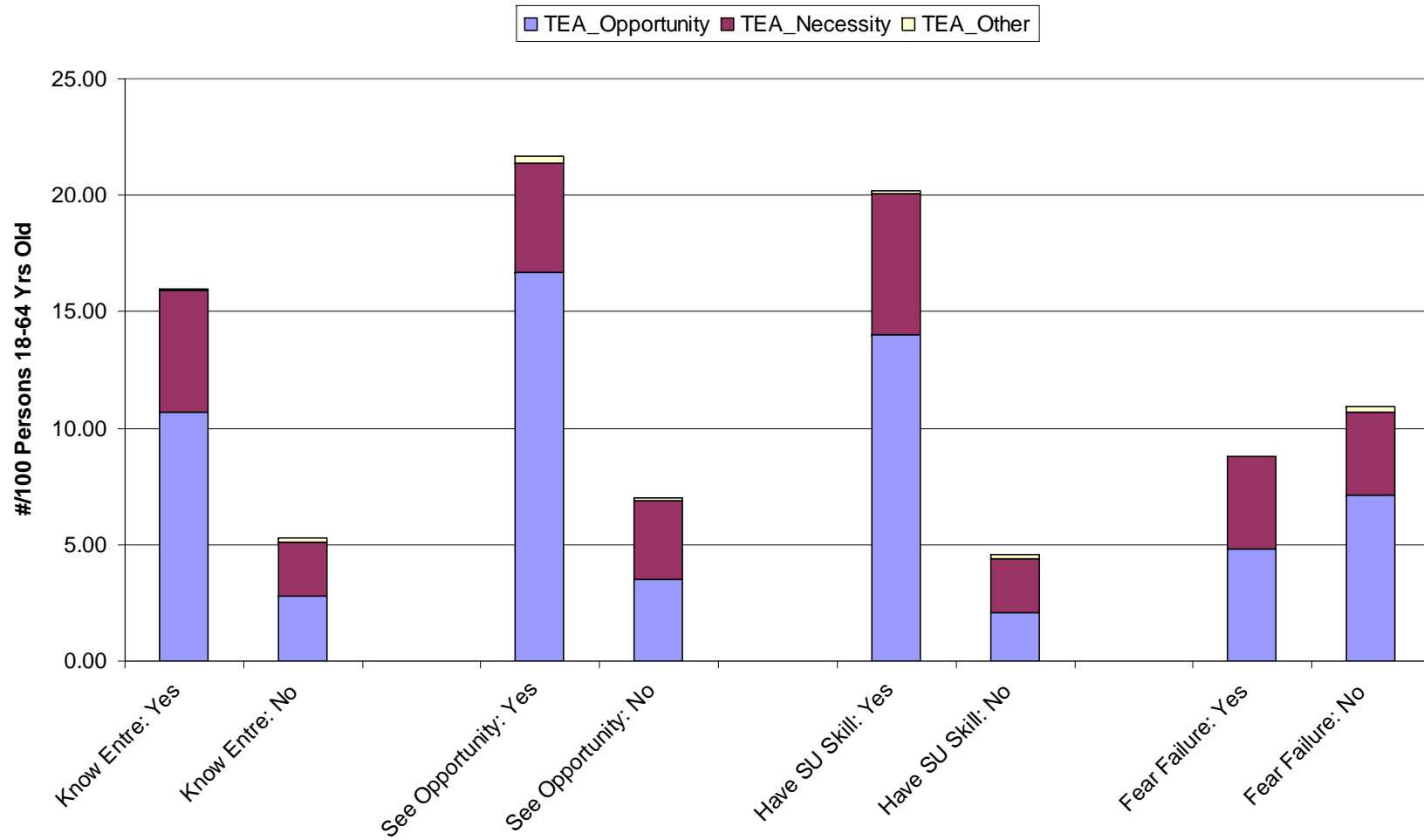
TEA02 - Men TEA02 - Women



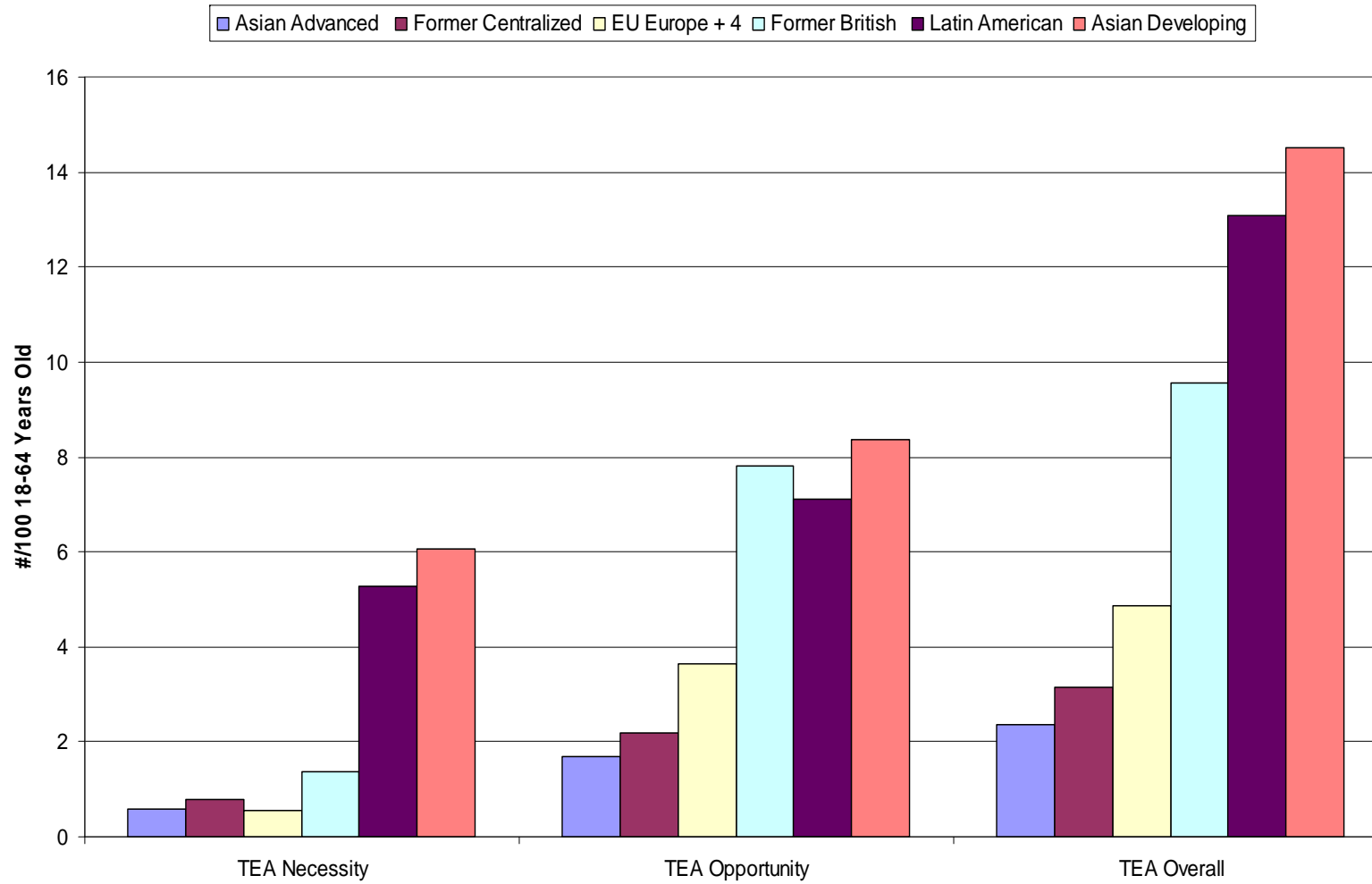
## Education, Relative HH Income, Labor Force Participation and Entrepreneurial Activity: 30 GEM 2002 Countries



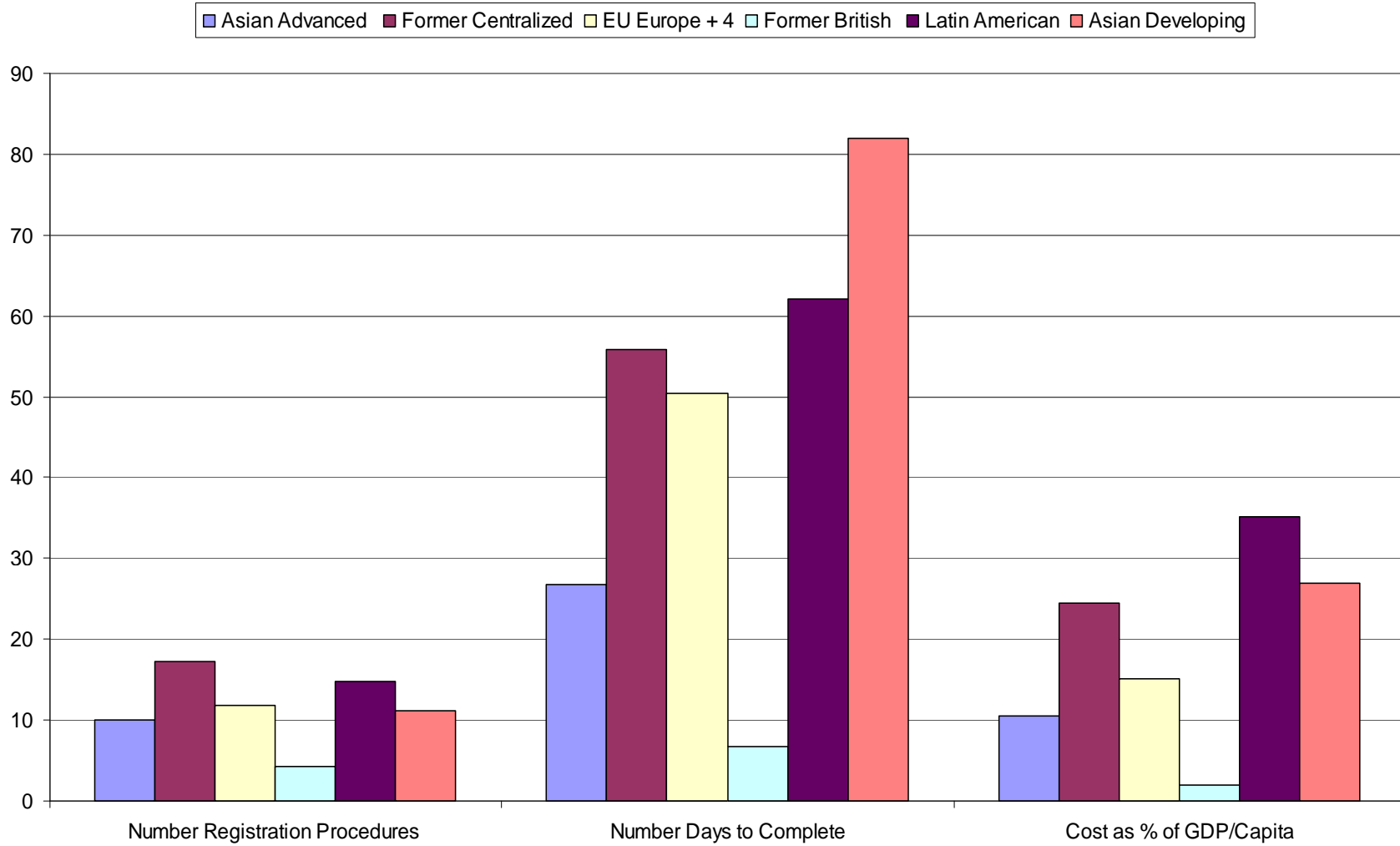
## Personal Responses and Entrepreneurial Acdtivity: 30 GEM 2002 Countries



# Entrepreneurial Activity by Global Type

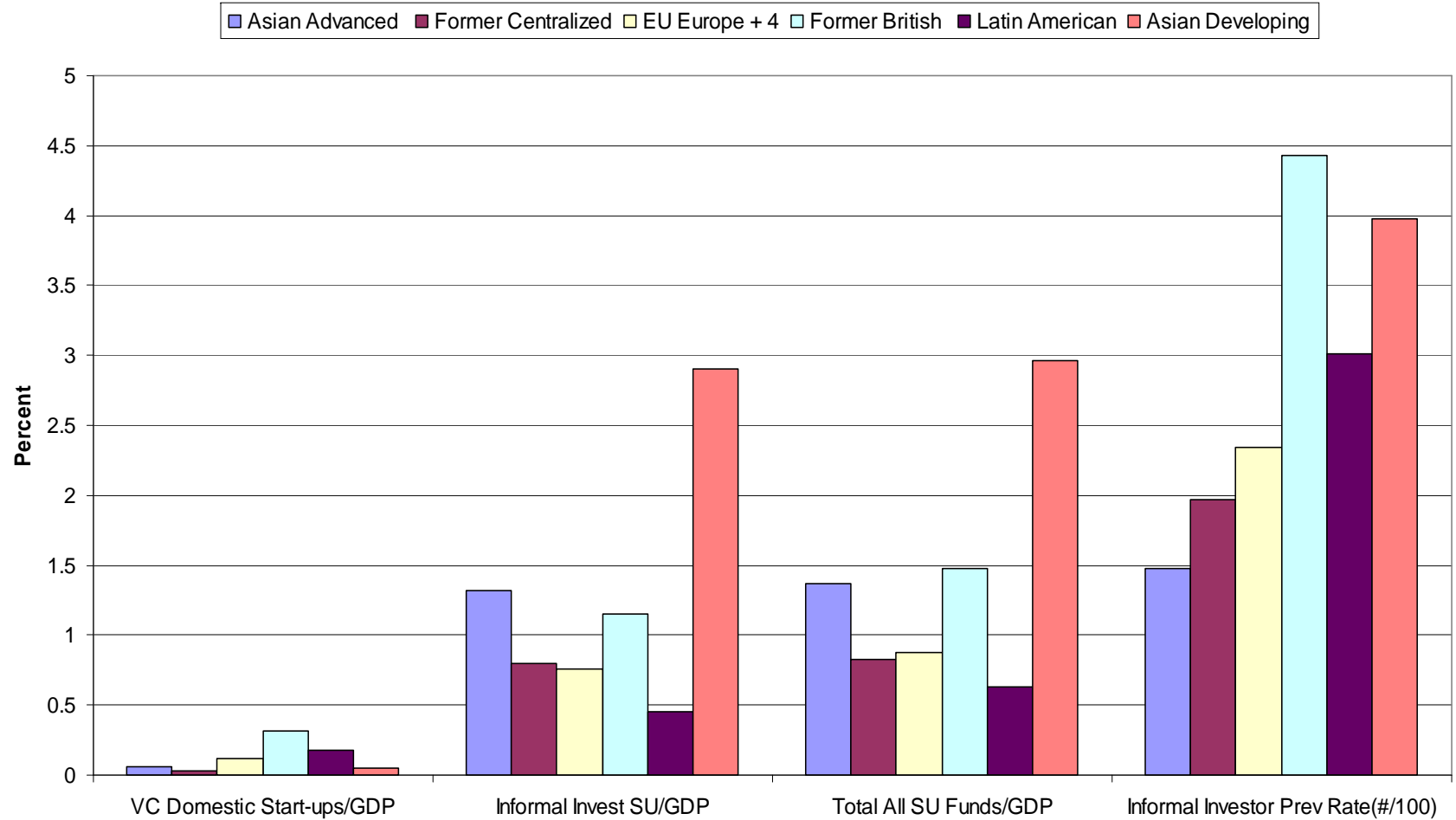


# Barriers to New Business Registration by Global Type





# Start-Up Financing: Informal and Venture Capital Support by Global Type



# Developed Asian

[Chinese Taipei, Hong Kong, Japan, Singapore]

- Opportunity TEA Low
- Necessity TEA Very Low
- Market Expansion TEA Low
- Women low Relative to Men [32%]
- Small percent adults
  - See business opportunities
  - Know an entrepreneur
  - Think they know how to start a business
- Low income disparity
- Post-materialism values widely accepted
- Political System
  - Political rights well developed
  - Open access to system
  - Moderate corruption
  - Strong property rights protection
- Low barriers to firm registration
- Low VC, informal financing
- Public sector
  - Moderate scope
  - Low cost

# Eastern European

[Croatia, Hungary, Poland, Russia, Slovenia]

- Opportunity TEA Low
- Necessity TEA Very Low
- Market Expansion TEA Very Low
- Women low Relative to Men [51%]
- **Small percent adults**
  - See business opportunities
  - Think they know how to start a business
- Some know an entrepreneur
- Substantial farm sector
- Very low illiteracy
- Moderate income disparity
- Strong support for materialism values
- Political System
  - Political rights undeveloped
  - Open access to system
  - Very low levels of corruption
  - Low property rights protection
- Moderate barriers to firm registration
- Low VC, informal financing
- **Public Sector**
  - Major presence
  - Rated as ineffective

# European Union + 4

[Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Israel, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, UK]

- Opportunity TEA Moderate
- Necessity TEA Very Low
- Market Expansion TEA Moderate
- Women low Relative to Men [47%]
- Many adults
  - See business opportunities
  - Think they have start-up skill
  - Know an entrepreneur
  - Have high fear of failure
- Very low illiteracy
- Low income disparity
- High social security costs
- Strong post-materialism values
- Political System
  - Political rights well developed
  - Open access to system
  - Low levels of corruption
  - Strong property rights protection
- Moderate firm registration barriers
- Moderate VC, informal financing
- Public Sector
  - Massive presence
  - Considered effective
  - Relatively expensive

# Former British Empire (Anglo)

[Australia, Canada, New Zealand, South Africa, United States]

- Opportunity TEA High
- Necessity TEA Low
- Market Expansion TEA High
- Women low Relative to Men [61%]
- Many adults
  - See business opportunities
  - Think they have start-up skill
  - Know an entrepreneur
  - Have low fear of failure
- Low illiteracy
  - Very high post-secondary emphasis (CA, US)
- Moderate income disparity
- Low social security costs
- Low support for post-materialism values
- Political System
  - Political rights well developed
  - Open access to system
  - Low levels of corruption
  - Strong property rights protection
- Lowest firm registration barriers
- Moderate VC, informal financing
- Public sector
  - Moderate scope
  - Rated as effective
  - Appears to be efficient

# Latin America

[Argentina, Brazil, Chile, Mexico]

- Opportunity TEA High
- Necessity TEA High
- Market Expansion TEA High
- Women Approach Equality [68%]
- Many adults
  - See business opportunities
  - Think they have start-up skill
  - Know an entrepreneur
- Low illiteracy
  - Less emphasis on secondary and post secondary education
- Substantial farm sector
- High % unemployed < 25 yrs old
- Highest income disparity
- Moderate social security costs
- Political System
  - Some political rights present
  - Reduced access to system
  - High levels of corruption
  - Weak property rights protection
- Highest firm registration barriers
- Moderate VC, informal financing
- Public sector
  - Moderate scope
  - Considered ineffective

# Developing Asian

[China, India, Korea (South), Thailand]

- Opportunity TEA High
- Necessity TEA High
- Market Expansion TEA High
- Women Approach Equality [74%]
- Many adults
  - See business opportunities
  - Think they have start-up skill
  - Know an entrepreneur
- Low illiteracy
  - Less emphasis on secondary and post secondary education
- Substantial farm sector
- High % unemployed < 25 yrs old
- High income disparity
- Almost no social security costs
- High emphasis on materialism
- Political System
  - Some political rights present
  - Reduced access to system
  - High levels of corruption
  - Weak property rights protection
- Highest firm registration barriers
- Moderate VC, informal financing
- Public sector
  - Substantial scope
  - Low cost
  - Rated as ineffective

# Policy Considerations

- Enormous amount of human effort devoted to starting new businesses
- Majority of activity in developing countries
- Critical factor associated with economic growth
  - Causal role is unclear
- Policy recommendations need to be tailored to the unique situation of each country
  - Best practices may be country—or country type--specific



# Developed Economies

- Strong infrastructure
  - Medium to high opportunity entrepreneurship
  - Low necessity entrepreneurship
- Major aversions to work career uncertainty
  - Reflected in substantial social support systems
- Accept Post-Materialism Value System
  - Assumes national economic success is assured!
- Dramatic personal career success is “suspect”
  - Are young adults encouraged to pursue low risk occupational options?

# Developing Economies

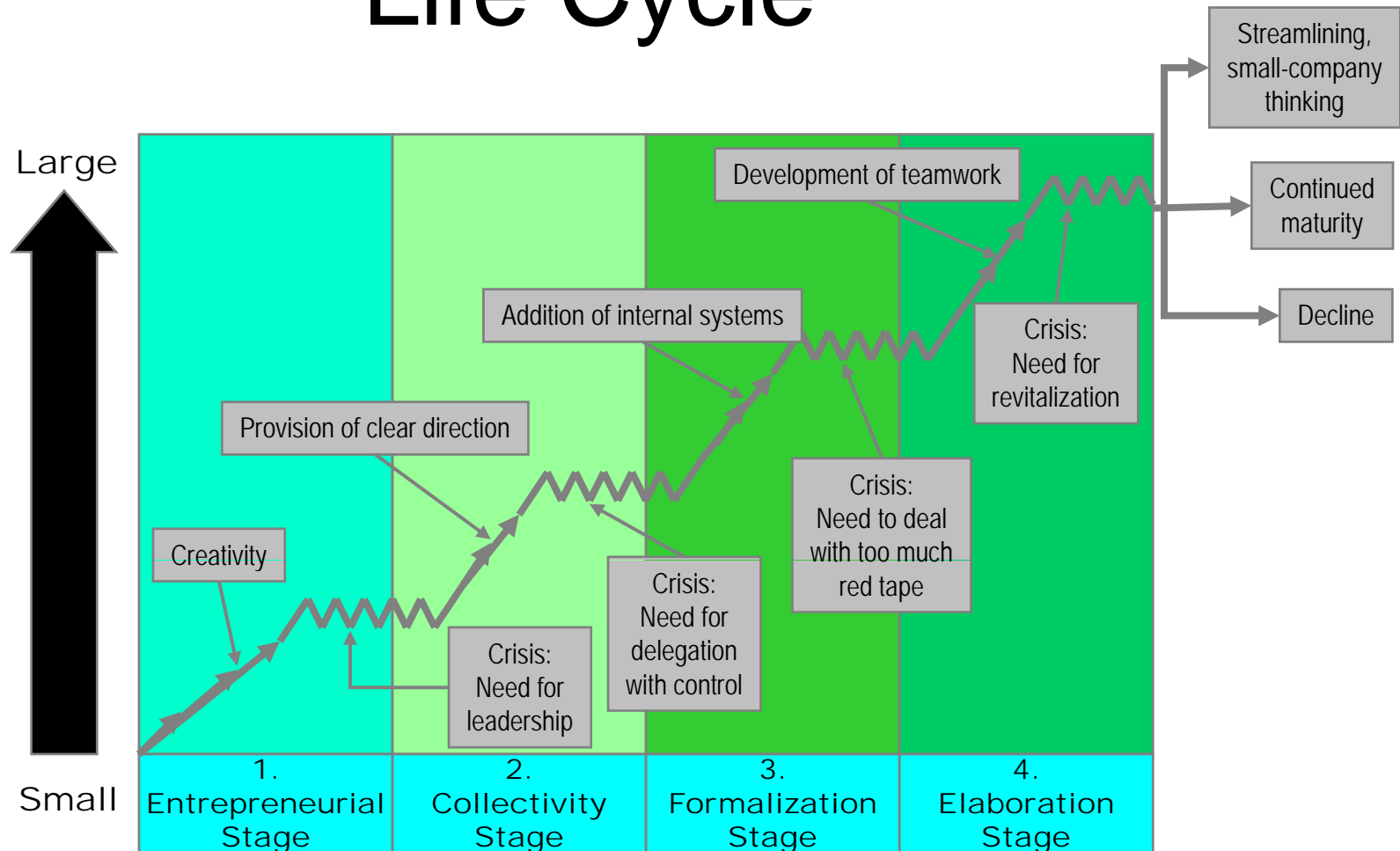
- Incomplete infrastructure
  - Medium to high opportunity entrepreneurship
  - Medium to high necessity entrepreneurship
    - Massive waves of draftees
  - Less technically sophisticated entrepreneurship
- Helpful structural improvements
  - Expand education, general and entrepreneurial specific
  - Systematize recognition of property rights
  - Enhance access to institutional finance
  - Improve efficiency of government, reduce corruption
- May become strong global competitors

# How Many People Are Involved?

- 37 GEM 2002 countries
  - 3,882 million people
  - 2,374 million in labor force age range (18-64 years old)
  - 62% of world population
  - 92% of world GDP
- Estimate 286 million active in start-ups
  - 205 million in India and China
  - 18 million in the US
  - 11.6 million EU + 4
  - 4.0 million Eastern European 5
- 140 million business entities (2 per start-up)
- Estimate 460 million active in the world
  - Compare to 132 million new human births each year
  - More than total population of North America (415 million)

# From Macro-to-Micro: The firm perspective

# Organizational Life Cycle



Sources: Adapted from Robert E. Quinn and Kim Cameron, "Organizational Life Cycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence," *Management Science* 29 (1983): 33-51; and Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 50 (July-August 1972): 37-46.

Exhibit III. Organization practices during evolution in the five phases of growth

Category	PHASE 1	PHASE 2	PHASE 3	PHASE 4	PHASE 5
MANAGEMENT FOCUS	Make & sell	Efficiency of operations	Expansion of market	Consolidation of organization	Problem solving & innovation
ORGANIZATION STRUCTURE	Informal	Centralized & functional	Decentralized & geographical	Line-staff & product groups	Matrix of teams
TOP MANAGEMENT STYLE	Individualistic & entrepreneurial	Directive	Delegative	Watchdog	Participative
CONTROL SYSTEM	Market results	Standards & cost centers	Reports & profit centers	Plans & investment centers	Mutual goal setting
MANAGEMENT REWARD EMPHASIS	Ownership	Salary & merit increases	Individual bonus	Profit sharing & stock options	Team bonus

# Managing phases in turbulent environments

- Kuratko:
  - Traditional Low Cost/Differentiation product/service strategies are no good anymore. Instead:
    - Adaptability/Flexibility/Speed
    - Aggressiveness
    - Innovativeness
- Hamel agrees: There is a need for revolutionary strategies
  - How much earnings will efficiency gains contribute with
  - How much growth is there in current business
  - How much scale economies is there yet to exploit
  - How different are our strategies from major competitors?

**Are they right?**

**Are most successful companies “SPEED” or “NEW GAME” players?**



- Wal-Mart
- Amazon
- iPod
- Nokia
- Ryanair
- Ferrari
- Dell
- Swatch
- Harley Davidson
- Zara
- Nike
- BIC
- Cirque du Soleil
- Husky

