

## **A characterization of types and determinant factors for corporate entrepreneurship: a case study based analysis**

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**Abstract:** What we present in this paper are the results of a preliminary stage of a study, part of a bigger project of Innobasque, Basque Innovation Agency. Our work uses the integrative model proposed by Narayanan V, Yang Y, Zahra S (2009), to try to identify the characteristics of the new business, activities or ventures created by entrepreneurial companies and explore the cause-effect relationship of some proposed “Context agents” such as: External factors (industry, technological change), Internal organizational factors (capital structure, top management commitment, competitive strategy, organizational structure, human resources policies, use of public funds and policies). We try to identify what are the more relevant factors, so that a systematic process to promote Intrapreneurship actions could be designed and afterwards disseminate the good practices learnt to small and medium enterprises. The methodology proposed for this work is Multiple Case Studies. We have selected, six technology based companies with a medium-high intensity in R+D, either small and medium-high companies from very different industries. All of them are involved in Intrapreneurship. The preliminary results confirm some of the literature thesis: there is by no means an unique type of Corporate Entrepreneurship, decisive influence of top management implication, corporate entrepreneurship is a strategic issue with decisive influence in the company survival, decisive influence of the Intrapreneur. But show a broad set of contingent possibilities and situations for the internal agents: (capital structure, competitive strategy, organizational structure, human resources policies, public funds and policies).

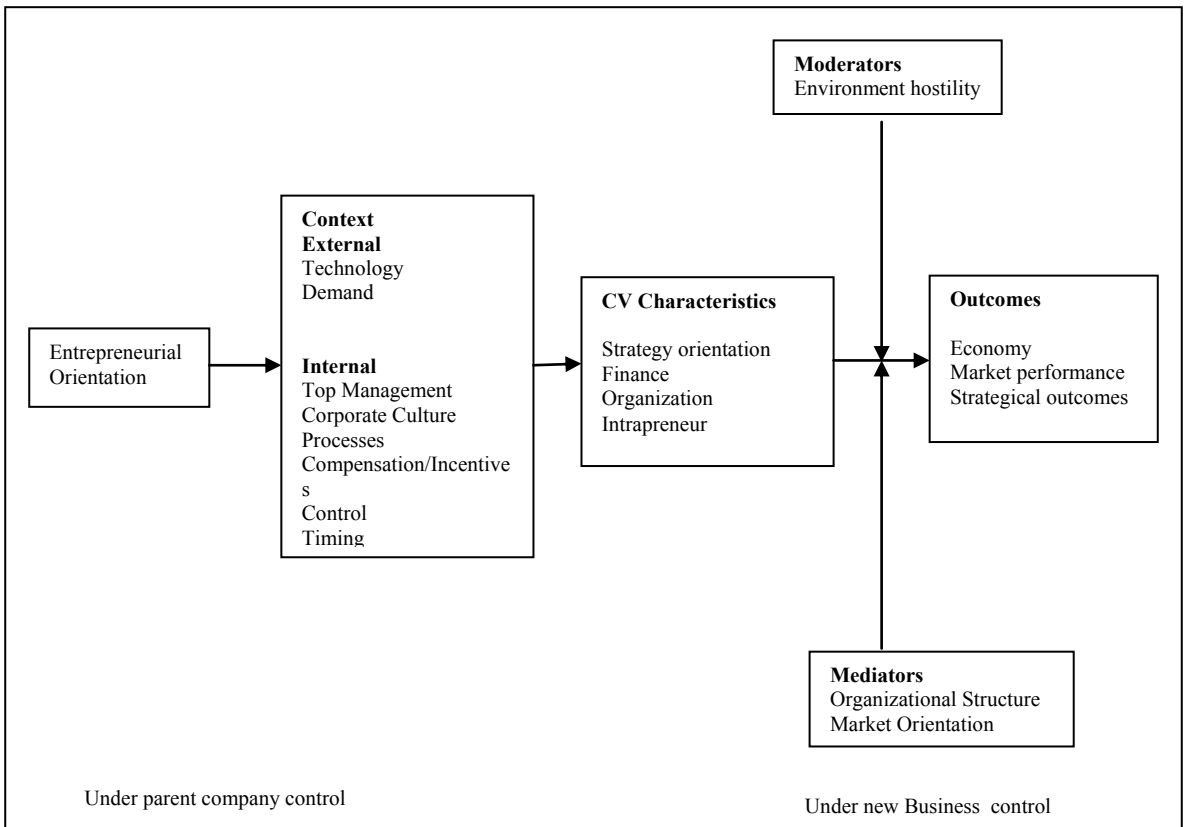
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## 1. Conceptual model

The interest in “business creation” (entrepreneurship) and its protagonists (entrepreneurs) is a classic issue in economic literature and in Management literature specifically. This issue is specially recurrent and relevant in economic crisis times. Beginning with the illustrious examples of R Cantillon and J.B. Say in XIX century and Josef Schumpeter (1934), currently it is an academic field perfectly established, with high impact specialized publications that produce a fair amount of literature. Since 1980 decade Intrapreneurship and Corporate Entrepreneurship are also a most relevant field of study

As a synthesis of some of the more relevant models to explain the Corporate Entrepreneurship process (Guth-Ginsberg (1990), Covin-Slevin (1991), Lumpkin-Dess (1996)), Narayanan, Yang y Zahra (2009) propose a new model that we can see in the next figure:



**Fig 1. An integrative model for Corporate Venturing: Narayanan, Yang, Zahra (2009)**

The model logic is:

- The basic concept as presented in Covin-Slevin (1991) was the Entrepreneurial Orientation of the company. A positive Entrepreneurial Orientation has a positive effect on the outcomes of the company especially in the economic outcomes (profitability, sales increase, market share). The cause-effect relationship between them may be reversible. Good outcomes may favour the Entrepreneurship.
- There are a set of Factors/Agents, External and Internal to the company that may determine the Characteristics of the new activities and by extension, the outcomes of them. The cause-effect relationship between them as well as its intensity are contingent. This is they do not act always the same but they depend very much on the possible combination between them.

The many studies on Corporate Entrepreneurship published in the last 30 years have not treated the same all elements in Narayanan, Yang and Zahra model. They have not even followed a similar cause-effect logic. Thus there is plenty of room for new research either to confirm the proposition of this model or to propose new factors

As a starting point we analyse in our work companies with strong experience in Corporate Entrepreneurship (CE) that have obtained positive outcomes of them. Hence the focus of our study is:

- The types of CE: development of new business related or no related to the current activities of the company (technology, markets, customers), development of external new business (Corporate Venturing) or internal new activities (Strategic Renewal of the company), financing of these new business/activities (only parent company capital or partnership with different agents as customers, suppliers, competitors, research centres including universities, venture capital).
- The “Context”, this is the factors that help or prevent Corporate Entrepreneurship that can be **External** to the company (technology, the characteristics of the industry demand, the competitive structure of the industry or **Internal** to the company (Top Management involvement, corporate culture (proclivity to changes, situation of labour relations, level and type of communications vertical and horizontal), the organizational control systems, the compensation and incentive systems. The former have been much more studied than the latter. But there is a fair number of issues that have been neither much nor conclusively studied.

## 2. Research methodology: Case Studies

A qualitative research design employing multi-case holistic study approach (Yin 1994) was used to investigate six technology based companies in the complex and underexplored area of CE. The data collection was made through semi-structured interviews. The paper uses data from several interviews and diverse secondary sources to enhance the validity and reliability of the study (Yin, 1984). The collection data was transcribed and categorized in order to be examined and interpreted by adopting an analytic inductive approach (Villareal and Landeta, 2006)

### 3. Characterization of the companies in the study.

We have analyzed six companies with a medium-high technological base: medium-high rates of assets/employee, sales/employee, added value/employee. Although they are in very different industries: design of electric power generation utilities, public building construction, computer interactive graphics applications. Four of them are mature companies, more than 30 years old, so there is a second or third generation in the company Management. The other two are quite young, less than 10 years old, and the first generation, the entrepreneur, is in the company Management.

**Table 3.1:** Characterization of the companies in the study

Company	Industry	Age (Years)	Size (No. of Employees)
A	Electric power generation (utilities design & operation)	60	5.000
B	Building construction (structures design & construction)	40	70
C	Computer interactive graphics	5	50
D	Bicycle manufacturing	150	250
E	Engineering services (Precision equipment for science)	5 90	30 80
F	Small and medium domestic appliances		

<b>Technology Intensity</b>	Low	Medium	High
Assets/employee (€)	<100.000		>200.000
Sales/employee (€)	<100.000		>200.000
Added value/employee (€)	<40.000		>70.000
<b>Company</b>		<b>C, D, F</b>	<b>A, B, E</b>

<b>R+D Intensity</b>	Low	Medium	High
% university graduates	<10%		>50%
% R+D (Sales, employee)	<5%		>10%
Patents			
<b>Company</b>	<b>F</b>	<b>D, B</b>	<b>A, C, E</b>

<b>Internationalization</b>	Low	Medium	High
	(<10% sales)		(>25% sales)
<b>Company</b>		<b>B, C, F</b>	<b>A, D, E</b>

Their size is also very different, from 30 to 5000 employees. All of them (but company F) have a high percentage of employees with a university degree. All of them devote an important effort to R+D, either internally or in collaboration with technological centres.

Two of them (computer interactive graphics and multimedia and precision equipment for science) are in very emergent industries with increasing markets, not consolidated neither demand nor competitors. The other four are in consolidated or mature industries but exposed to very important technological and competitive changes. In any case, the duration of the life cycle of product or activity lines is decreasing to less than 10 years and companies are forced to set new activities, at least, every five years. This is why Corporate Entrepreneurship is so important for them in both aspects: new product development and new companies development based on some of the former products.

## **4. Some preliminary results**

### **4.1. Characteristics of new activities and ventures**

For all companies Intrapreneurship – Corporate Entrepreneurship is very important in both aspects: Internal entrepreneurship, New product development that produce brand new activity lines (same or different customers in same or different markets); External entrepreneurship, New companies development based on some of the former products.

The six companies have started other companies:

- Three of them (A, C, E) to start new business, the true Corporate Venturing.
- Three of them (B, D, F) not for pure innovation but for administrative, fiscal or internationalizing purposes. They have developed internally the new activities. The main reason to do so is the degree of strength/appeal they give to the current brand

Four out of the six companies (A,B, D,F) at some moment have bought other companies, some to start new business, and all of them to buy a supplier and a competitor to support current operations. Is much more common the option of buying an existing business than to start a radical new one.

The six of them have experienced failures in new activities sometimes

The pace for creation of new activities and ventures in the three cases is about or less than 5 years, but it seems to be not intended. There does not seem to exist a planning for the launch of new ventures being them opportunistic actions. Most of the companies allow for three years to the new activities to reach “critical mass”. If not they are eliminated.

All the companies undertake new activities with diverse degrees of relation with current business: most of all different technologies for same customers/markets or different segments of same markets but also same technologies for different markets (internationalization)

**Table 4.1:** Types of CE.

	A	B	C	D	E	F
Use of Intrapreneurship?	YES	YES	YES	YES	YES	YES
New Companies?	YES	YES	YES	YES	YES	YES
New Internal Business units?	YES	YES	YES	YES	NO	YES
Frequency (< 5 years)	YES	YES	YES	YES	YES	YES
New Companies EX-NOVO?	YES	NO	YES	NO	YES	NO
New Companies through acquisitions?	YES	YES	NO	YES	NO	NO
Acquisition of suppliers/competitors	YES	YES	NO	YES	NO	NO
Related Diversification						
Technology	YES	YES	YES	YES	YES	YES
Product/Market	YES	YES	YES	YES	YES	YES
No Related Diversification.	YES	NO	NO	YES	NO	YES
Some failures in intrapreneurship?	YES	NO	YES	YES	NO	NO
Internal Intrapreneur	YES	YES	NO	YES	NO	YES
External Intrapreneur	YES	NO	YES	NO	YES	NO
Drive For intrapreneurship						
I+D	YES	YES	YES	YES	YES	YES
Company Board	YES	NO	YES	YES	YES	YES
Other partners			YES	NO		YES
Customers	YES	NO	YES	NO	YES	NO
Intrapreneur			YES	NO		NO
Project Oriented Organization (Matrix)	YES	YES	NO	NO	YES	NO
Safety Net for intrapreneurs	YES		NO	NO	NO	NO
Risk Capital	NO	NO	YES	NO	NO	NO
Public funds and programmes	YES	YES	YES	YES	YES	YES

#### 4.2. Influence of the “context”: the internal factors

The drive for the CE has come in most cases from Top Management. CE is a strategical issue for companies. In all cases there is pressure of the R+D department but also from external partners, mainly customers. R+D push, supported with patents is very important in four companies. In the other companies which also use R+D, the market opportunity is

more important. Anyway there are also a certain number of failures for following too strictly the “R+D department push”. They are more successful stories when combining R+D results with “demand pull” via customers or competitors alliances.

Three of the companies (B, D, F) are more “early followers” than “pioneers” although they use R+D in cooperation with applied research centres, they also use collaboration with customers or suppliers via agreements or acquisitions. Companies (C, E) rely much more on R+D although they also use collaboration with technological partners, customers and suppliers. Company A uses everything.

The capital needed, though important, has not been a critical issue although, eventually, one of the companies have asked for risk capital ( C ). Most new ventures (D, E, F) are 100% owned by the mother company. (A) company uses the three possibilities 100% proprietor, majority position with external partners and minority position with external partners and C company uses minority position with external partners.

The organizational structure of the company before developing the new venture seems to be very important. Project oriented structures seem to be more prone to develop new ventures. The level of divergence with the current business and most of all risk favour the development of new ventures.

Almost all companies have used public funds and programs to promote R+D and/or innovation and entrepreneurship. This programs are not determinant bur are important.

The entrepreneurs in the new companies created have been either internal employees or external people. More usual the former especially in the cases of acquisitions of existing companies.

Related to the personal characteristics of the Intrapreneurs the three companies have quite correctly identified the profiles they look for in the people that will promote “new business units”. In general they are much less “technical” than “commercial” people and most of all they should have the ability to interact with and conduct other people, that is Leadership. In the three cases they also look for people able to take risks and that show illusion, motivation and perseverance.

In one of the cases (A) the mother company guarantees the return of the Intrapreneur in case of failure, but not in the other two (C, E). But the three of them agree that a true Intrapreneur does not need this “safety net”. If a candidate for Intrapreneurship is worried about this issue he is not the right candidate.

In the three cases when asked the Intrapreneurs about their motivations, the answers were: Autonomy; Achievement spirit; The feeling of fulfilment. To have used to the most one’s capabilities. None of them mention the economic retribution. No company use it as an incentive, it seems that most intrapreneurs do not even think of it when starting a new project.

## 5. Final conclusions

Technology based companies, with intensive use of R+D, mainly SME, either in mature or emergent industries use Corporate Entrepreneurship as a strategic issue but there is a broad spectrum of types that new activities and ventures can adopt.

There is a relation between the maturity (or emergence) of the industry and the type of entrepreneurship (external or internal), and the finance of it (100% proprietor, or partnerships in minority). There is more use of acquisitions than pure spin off.

There are some important but contingent “Context Internal factors”: R+D effort, alliances, Organizational structure, strategy profile, public programs.

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