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# THE ECOLOGY OF CORPORATE ENTREPRENEURSHIP



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## Today's mission

1

To further describe the processes of corporate entrepreneurship, and set the stage for the cases and following modules of the course.

2

To make you succeed with your own entrepreneurial projects in these organizations.



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# Entrepreneurship

Independent  
entrepreneurship

Corporate  
entrepreneurship

New businesses that are  
integrated into the firm's portfolio

Organizational or strategic  
entrepreneurship:

Internal:

Introduction of new  
products and services

External:

Acquired businesses,  
or businesses that result  
from of corporate venture  
capital investments, or other  
open innovation initiatives

Identification and exploitation  
of new opportunities:

Organizational renewal  
Strategic renewal



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# Three reasons why corporate entrepreneurship is important

#1

Companies that promote corporate entrepreneurship tend to perform better than others (e.g. Capon, Farley, Lehmann & Hulbert, 1992; Zahra, 1991; Zahra & Covin, 1995).

Imagine....

Apple without the iPhone

Ericsson without mobile communication equipment

Sony without the Playstation

Coca Cola without Coke Light

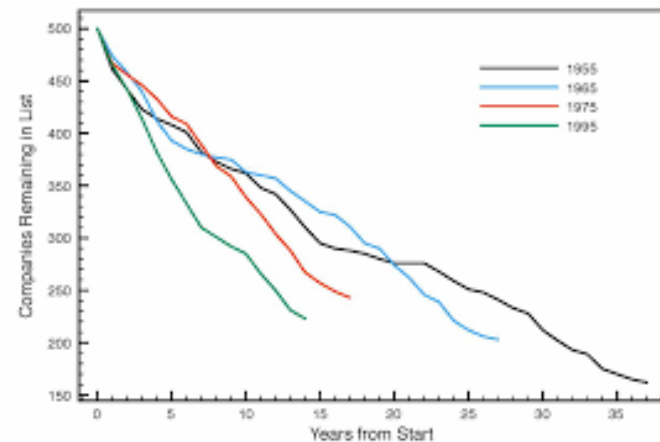
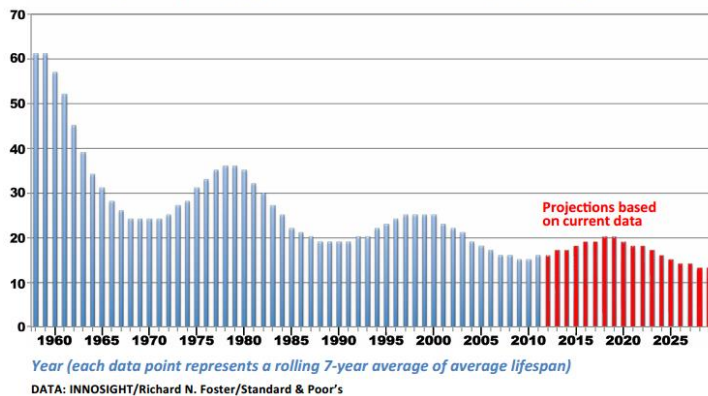


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#2

Ultimately, existing products and services will become obsolete and must be replaced.

■ Average company lifespan on S&P 500 Index (in years)





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**BBC**  
**NEWS**



1 July 2020

**Tesla has become the world's most valuable carmaker, overtaking Japan's Toyota, after its stock hit a record high.**

Shares in the electric carmaker touched \$1,134 on Wednesday morning before falling back, leaving it with a market value of \$209.47bn (£165bn).

That is roughly \$4bn more than Toyota's current stock market value.

However, Toyota sold around 30 times more cars last year and its revenues were more than 10 times higher.

Shares in Tesla have surged since the start of 2020 as investors have begun to feel more confident about the future of electric vehicles.



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*"Change before you have to."*

Jack Welch, former CEO General Electric



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#3

If you want to attract competent new employees, you'd better offer them interesting jobs and development opportunities.

- Professionals seek challenges
- “Don’t ask what you can do for your company, ask what the company can do for you.”







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Country A	Country B
Development Growth Change Dynamic Innovation Creation Risk taking Opportunity Discovery Creativity	Stagnation Decline Stability Static Tradition Destruction Risk reduction Impossibility Oblivion Dullness

From: Berglund & Johansson (2007)



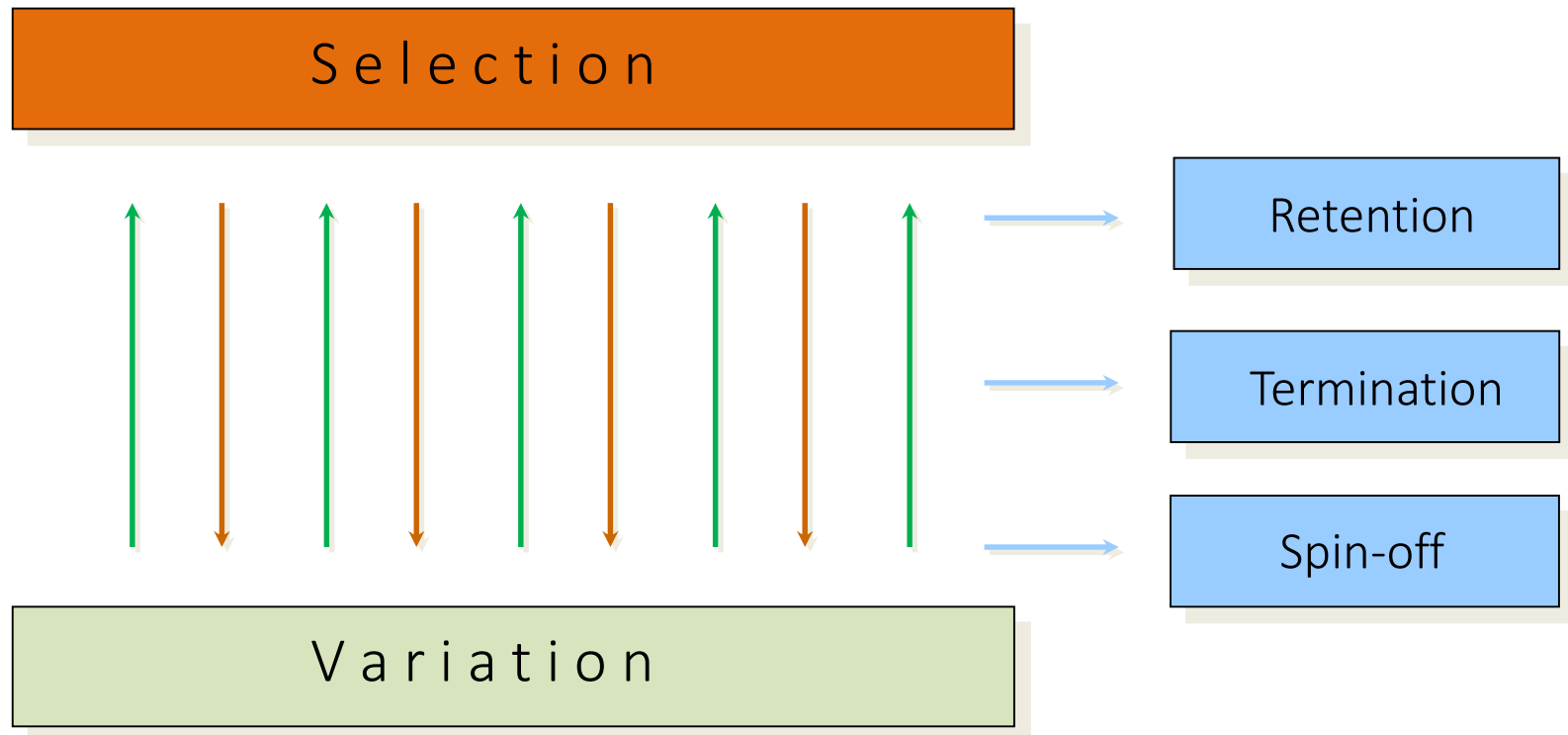
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Then why aren't more  
companies doing it?



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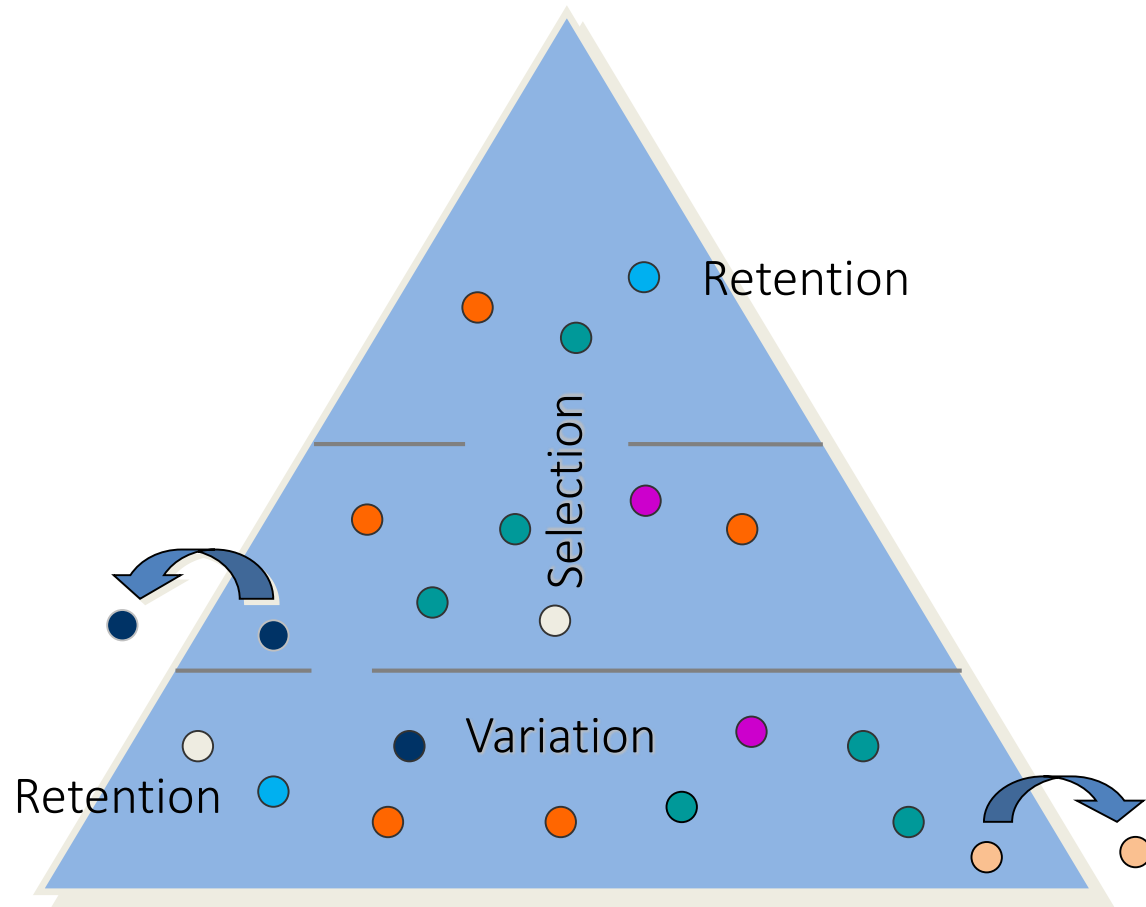
## Two processes, three outcomes in corporate entrepreneurship





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# New business ideas





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## Selection – A subjective process

“Judgment of new ideas and new technologies is nothing to vote about. It is not a democratic or objective process, but highly subjective and individualistic.”

Innovator, major Swedish corporation



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## Selection involves a number of people

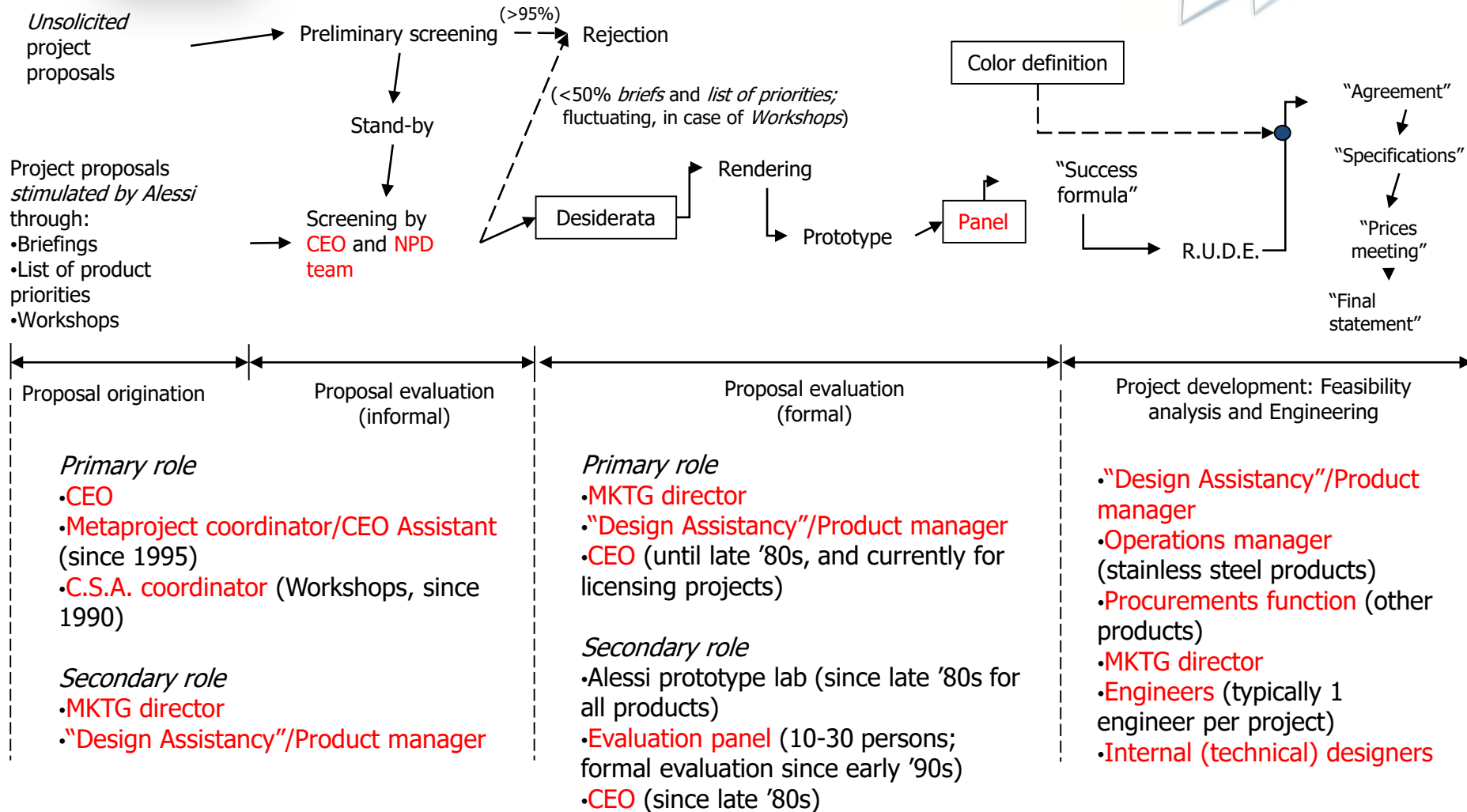
“When you look at what’s required to get a new product through all the red tape and the opposition, a major problem is that virtually a hundred people have to sign off on an idea. **If anyone of them says no, the idea is dead.**”

Jerome Lemelson, serial innovator



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# Selection at Alessi



Source: Carlo Salvato (2006)



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## The intrapreneur's dilemma



“Innovation makes enemies of all those who prospered under the old regime, and only lukewarm support is forthcoming from those who would prosper under the new. Their support is indifferent partly from their fear and partly because they are generally incredulous, never really trusting new things unless they have tested them by experience.”

From: Niccolò Machiavelli, “The Prince”.





## Sources of resistance among others

1. **Instinct/mental pictures** of prior successful products and services:  
“Better safe than sorry.”  
“This doesn’t look like anything we have done before.”
2. **Established rules, routines and procedures:**  
“This will only disrupt things and create problems.”
3. **Perceived role and incentives:**  
“It’s not my job to come up with new things.”  
“I’m not assessed by how many new ideas I support.”
4. **No slack/lack of resources:**  
“There’s no time or money to play around with new things.”
5. **Internal power games:**  
“If this succeeds my position in the company might be threatened.”  
“There is no power in running small and unprofitable things.”  
“Why risk a failure?”



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## Expressed in the 'dark voice'

1. "It won't work technically."
2. "We've already got another solution that takes care of the problem" (or, "we're already working on another solution that will work even better").

3. "It won't work commercially."

Harry Frank, Head of R&D, ABB



4. "We've tried this before, and it doesn't work."

Juan Polo, Intel Spain



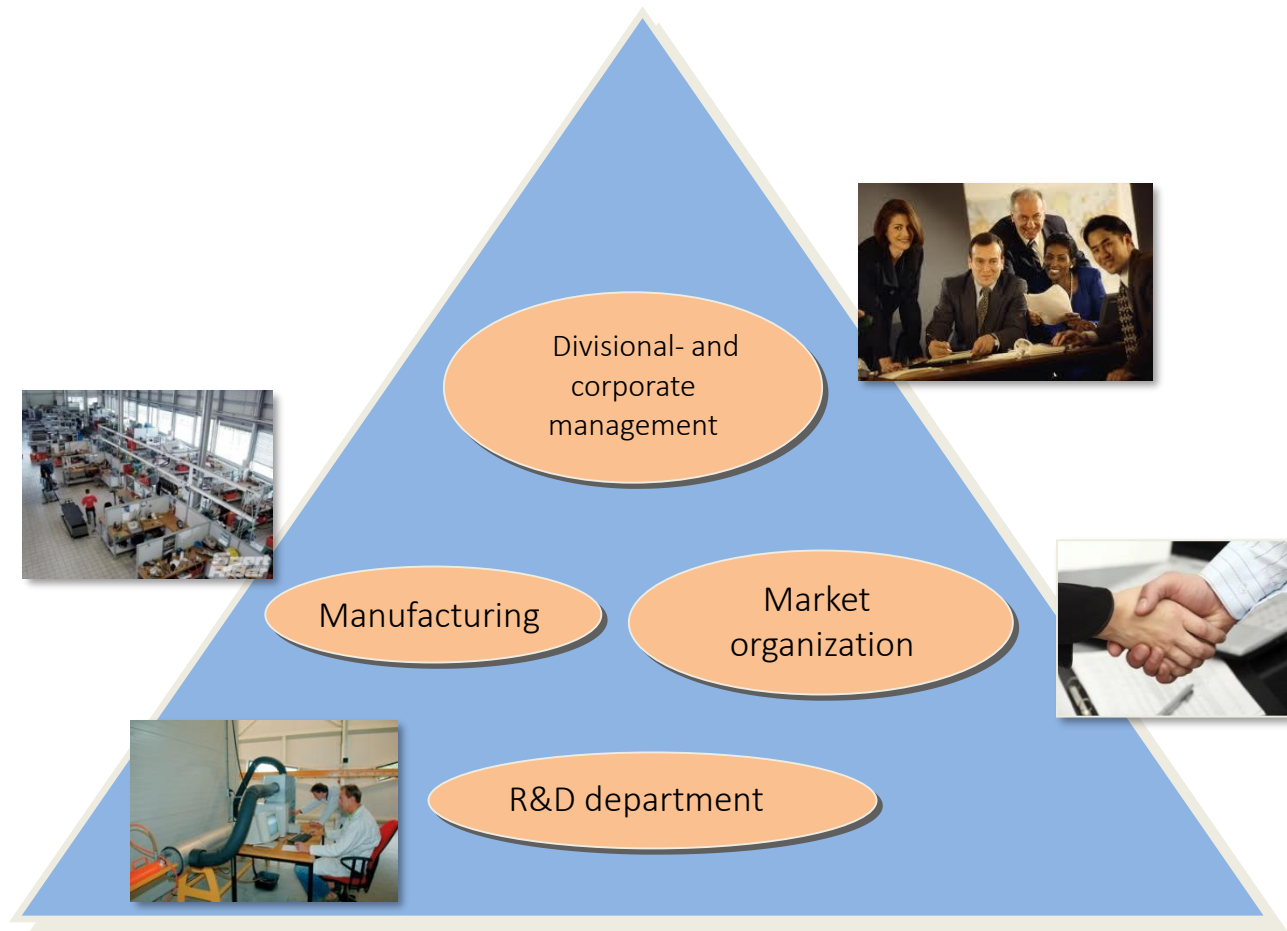
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# THE CORPORATION - A DIFFERENTIATED SELECTION SYSTEM



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# Selection at different places in the organization





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R&D department



“If I see a gold-plated thing with sprawling antennas we don’t give it our support. We don’t do gold-plated things around here.”

“It has to be something radically different, but within the field ... Sometimes I get excited by the technical solution as such and just go for it - can you make a first version to see if it works?”

“Does it generate money? No. But it’s cool, it’s cool stuff!”



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## Manufacturing



“Manufacturing obviously prefers to produce large volumes of established products over small volumes of new products. They need to meet internal profitability targets.”

“New technology often means a reorganization of existing manufacturing operations. This requires much work on behalf of the head of the unit and many changes. And then they ask - why do we have to make these changes, when we already show good results, that is, when we meet internal profitability targets with the existing manufacturing system.”



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"I can call up contacts in others parts of the corporation and pick their brains. But, I cannot say, 'I have this idea and you have this equipment, would you do three samples for me?' The other person will say he cannot do it because his time is already allotted in the action plans, and if he does this, it might have a negative impact on his performance appraisal."

From Burgelman (1985: 46)





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## Market organization



“The market organization does not want to sell products they don’t know about. They are afraid to seem uninformed. They also must go out and find the right customers, which of course is more difficult than selling an existing product to established customers.”

“It’s much easier to get acceptance for a project that makes an existing product cheaper than a project that involves the development of a new product with new properties. The market organization wants the same product that already exists today, just a little bit cheaper and better than our competitors'.”





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## Market organization



“Many of the companies we have talked to develop new digital solutions, but when they take these solutions to the market neither sales nor communication are coordinated, nor are they especially interested in selling the new solutions.”

Björkdahl, Wallin and Kronblad (2018), on conditions in the manufacturing industries.



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## Divisional- and corporate management



"If anything happens at all depends entirely on what are regarded as core areas, and that keeps changing of course. Previously it was in the heads of people, now it's more in the stock market."

"Ideas that are not in the core are very difficult to pursue. If I want to do soap, I will have to look for a long time to find that [strategic] fit [in Ericsson]."

"Of course, relative size of the new market compared to the existing also matters."

Hans Beckman, Ericsson



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Middle management

## Enter the "sponsor"

"A manager who believes in you and can protect your idea, and who makes the new idea strategically legitimate at higher levels of the organization."





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Generally across groups



“The more money we have, the more we are interested in innovation. Higher profits result in more innovation, lower profits in less. It’s as simple as that.”

“If the company does really well and there’s lots of cash flow, then it’s hard to invest it all in the core areas. Then you invest in new and less related ventures.”





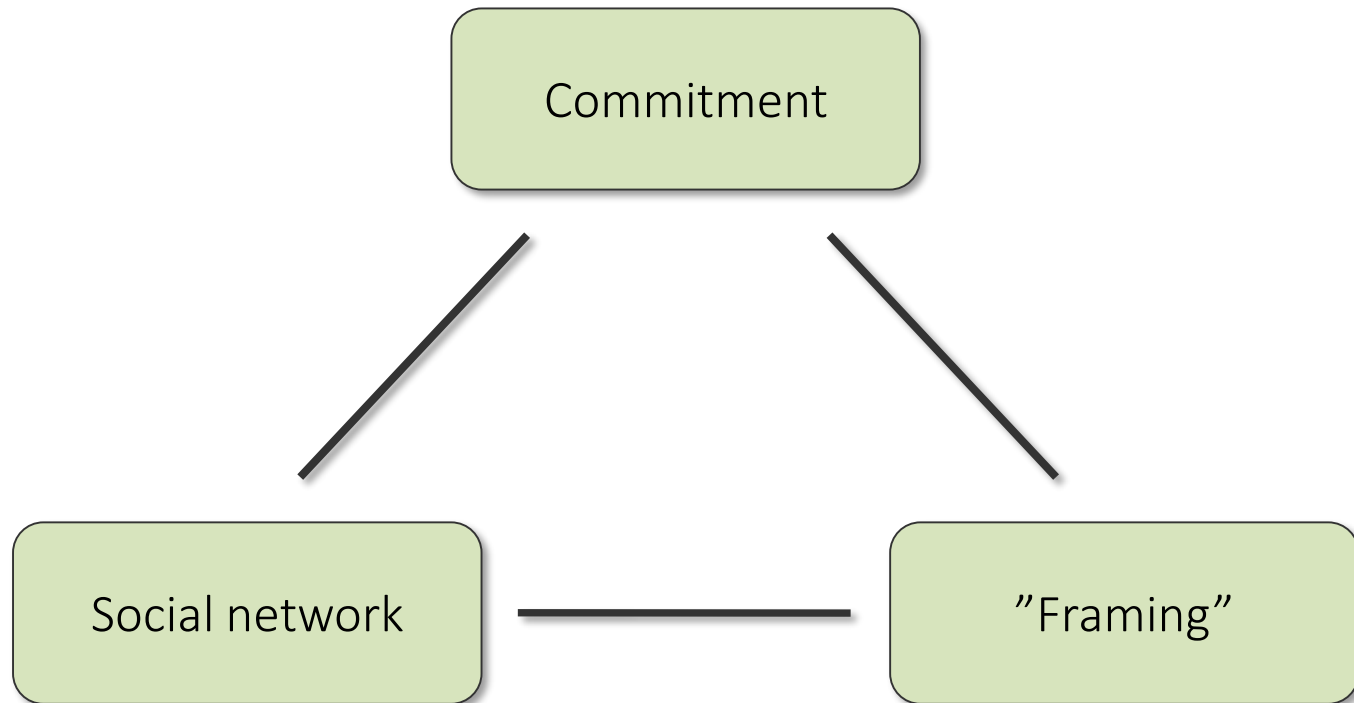
## Before we vilify

1. A well-functioning corporation must select among potential new products and services.
2. Some new products and services don't make for a good fit with what the corporation is doing.
3. Not all ideas are good ideas (but some 'bad' ideas are good ideas).
4. People in the mainstream may be acting according to what they genuinely think is in their company's best interests.



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## The intrapreneur's allies





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Commitment

“One generally underestimates how much effort it takes to convince others about the value of a new idea. You can have the best idea, but this absolutely does not mean that people will automatically support it.”

Intrapreneur

“...those who are good at negotiating and winning support for their ideas within the existing organization have better chances of making an impact.”

Manager, new venture department



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Social network

“The only way new and innovative projects can succeed is with the help of senior managers who are very interested in technology and who have the power to push the project through.”

R&D manager

“You need to develop your internal web of contacts.”

Philip Nyströmer, Ericsson





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“Framing”





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“Framing”



“You have to present a message – always remember who you are talking to, how does that person want me to present the idea?”

“Before I go into a meeting, I learn everything I can about that person – who is he/she?”

Emelie Norborg, Deloitte



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“Framing”

“It is all about adapting to the flavour of the day. Sometimes one tries to emphasize the new business opportunities the project has to offer, or one tries to demonstrate how the project can support and improve the existing core business areas. At other times one tries to emphasize possible threats from competitors, like saying that other competitors have already started to invest in this technology and we are in danger of lagging behind.”

Intrapreneur



## “Framing”

It is ***not*** about lying or being dishonest:

“One product manager asked for 7 million dollars to sell 170,000 units of a new product line. He omitted most of the costs, put [in] only a little bit of software development and advertising costs – the strict minimum. **He did not include any infrastructure and support costs, which represented 90 per cent of the costs.** The finance people who did not understand the business took these numbers at face value and produced financial indicators with a five decimal precision. They compared the profitability of one project against another on that basis and allocated funding accordingly...**Others who were a bit more thorough or honest lost...**[and will practice the new rules of the game next time].”

From: Huy (2002)



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# TESTING A MODEL OF THE SURVIVAL OF INTERNAL NEW VENTURES



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## The sample

86 new business concepts in 33 Swedish corporations.

Snowball sampling, aimed at identifying products or services that represent "something significantly new in terms of technology or functionality".

103 interviews and 86 useful surveys in the period 2001-2014.

For a detailed description and presentation: Czernich (2004), Lücke, Basu and Zander (2018), Czernich and Zander (2018).



## Sample composition

Status	Number	Per cent
Retained	38	45
Terminated	48	28

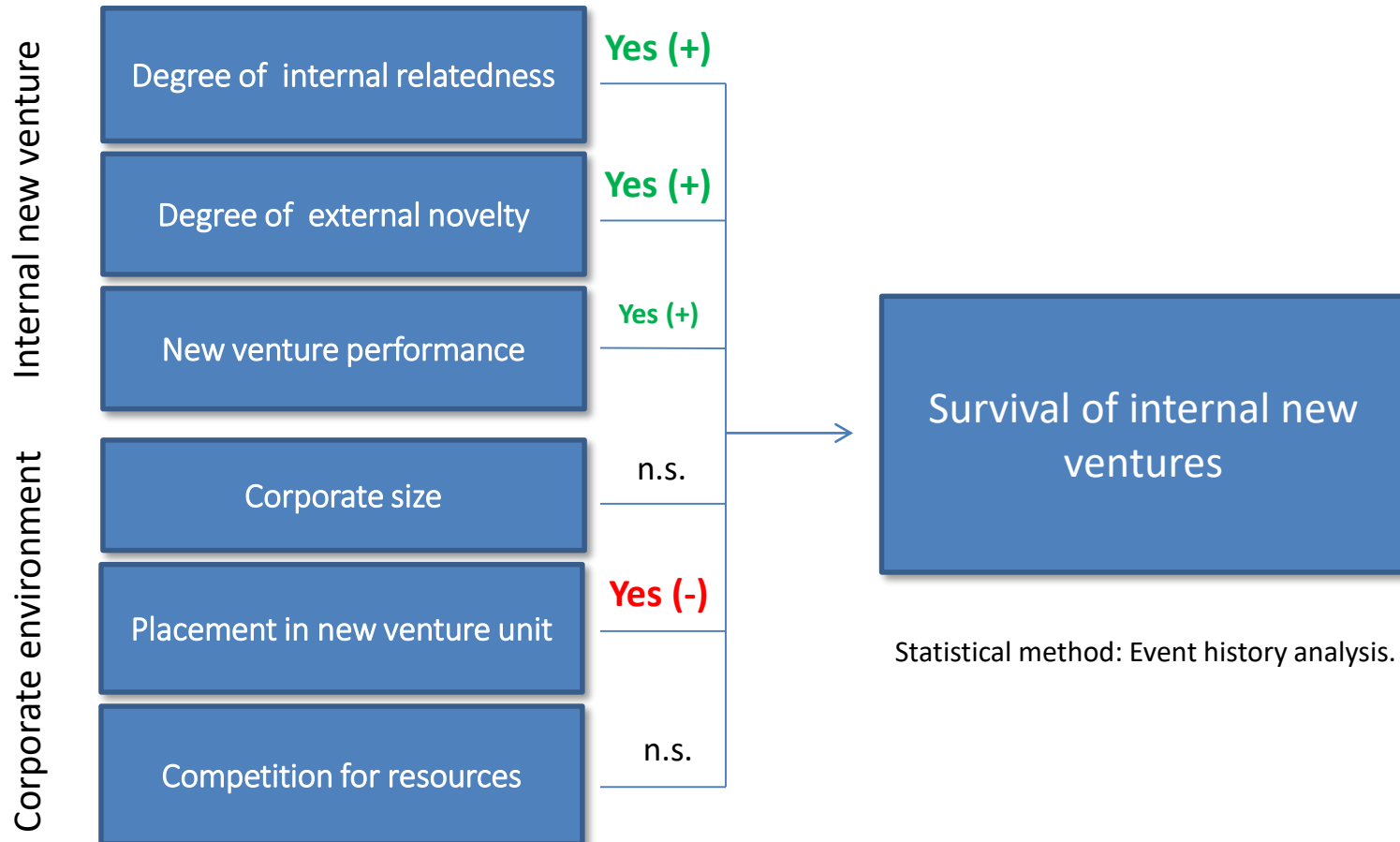
Survival: 1-29 years, median 6.5 years.





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# Testing the drivers of the survival of internal new ventures







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## Some final thoughts on intrapreneuring

1. Be aware you're in an organizational context, be conscious about what you say and do.
2. Network - make friends, not enemies:
  - You never know when you will need people and their support.
  - People will talk about you and your work.
3. Resist the temptation to stun the world with your brilliance:
  - Ask for early input into what you're doing, listen, and adapt (use your judgment).
  - Major decisions should have been made before any formal meetings take place.



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## Some final thoughts (continued)

### 4. Never expect people to be prepared:

- Be prepared to give short and long presentation of your project.
- If people don't have the time, ask to come back another day (use your judgment).
- Expect critical questions.
- Have an answer to the "acid question" about money.

### 5. Keep working on your framing and communication skills:

- Focus on the position of others and what they want to hear, not on what you want to say.



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## Some final thoughts (continued)

6. Equip yourself with extreme endurance:
  - Unexpected setbacks can and will occur at any time.
  - New ventures always remain at risk of termination.