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Exploring Corporate Entrepreneurship : A Corporate Strategy Perspective

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The following paper is exploratory and constitutes an initial attempt to tackle the field of Corporate Entrepreneurship from a Corporate Strategy perspective: it points at some unaddressed issues and aims at stimulating further thinking and investigation. This paper has been presented at the 17th EGOS conference held in Lyon on July 2001 under the title "Corporate Entrepreneurship: a Pandora's Box ?".

Abstract : Corporate Entrepreneurship associates the contrasting notions of individual initiative on the one hand and corporate development on the other. From a Corporate Strategy perspective, this association appears somewhat hazardous since it reinforces 1) the risk of strategic misalignment and 2) the risk of competitive advantage erosion. In effect, corporations cannot rely on personal initiative without increasing the autonomy of individuals and the risk that their personal projects might diverge significantly from key strategic alignments. Furthermore, by doing so, corporations favor the progressive transformation of certain employees into highly valuable and marketable entrepreneurs, thus reducing the level of embeddedness of their most valuable human resources and, consequently, the sustainability of their competitive advantage. In order to successfully implement CE, corporations have to face and mitigate the risks inherent to it : the last part of the paper explores the contextual and management variables that influence corporations' ability to manage these risks.

Key words: Corporate Entrepreneurship, Strategic Alignment, Competitive Advantage, Resource Mobility, Rent Appropriation

Résumé: L'Intrapreneuriat associe étroitement les notions antithétiques d'initiative individuelle et de développement organisationnel. Du point de vue du management stratégique, cette association n'est pas sans générer de risques car elle peut accroître 1) le risque de divergence stratégique et 2) le risque d'érosion de l'avantage concurrentiel. L'entreprise ne peut en effet faire levier sur l'initiative et l'engagement des individus sans accroître leur autonomie et par conséquent le risque que leur projet ne s'écarte des alignements stratégiques de l'entreprise. De plus, en encourageant l'initiative individuelle, les entreprises favorisent la transformation progressive de certains employés en « intrapreneurs » dont la valeur et l'employabilité à l'extérieur de l'entreprise sont très élevées. Elles diminuent ainsi le degré d'« enchâssement » de ressources précieuses et réduisent par conséquent la défendabilité de leur avantage concurrentiel. La capacité des entreprises à mettre en œuvre avec succès l'Intrapreneuriat est donc liée à leur capacité à mitiger les risques mentionnés : la dernière partie de l'article explore l'ensemble des variables contextuelles et internes pouvant influencer celle-ci.

Mots-clés : Intrapreneuriat, Alignement stratégique, Avantage concurrentiel, Mobilité des ressources, Appropriation de la rente .

Introduction

Since its inception in the late seventies and up to this day, the topic of Corporate Entrepreneurship (CE) has intrigued both scholars and practitioners. The extensive body of literature they have produced over the years reveals, however, a great heterogeneity of purpose and perspective (Guth & Ginsberg, 1990; Sharma & Chrisma, 1999) which stems in part from the multifaceted nature of CE but also from the persistence of unsolved “definitional issues” (Sharma & Chrisman, 1999). The apparently inconsistent viewpoints found in theoretical and empirical writings are representative of this state of affair. In effect, while most theoretical models postulate a positive relation between CE and firm performance, or between CE and some valuable organizational process such as learning or renewal (Kuratko, Montagno & Hornsby, 1990; Covin & Slevin, 1991; Zahra, 1993; Lumpkin & Dess, 1996; Zahra, Nielsen & Bogner, 1999), field studies propose a contrasted picture of CE, a picture in which *failure* is common (von Hippel, 1977; Fast, 1978; Sykes & Block, 1989; Burgelman, 1983a; Kanter, 1985; Kanter et al., 1990, 1991; Gompers & Lerner, 2000). This discrepancy has been the trigger that has encouraged us to try and approach CE from a different and somewhat unorthodox perspective. If CE, as experience tends to prove, systematically raises strategic, organizational and operational issues that eventually lead to failure or withdrawal, then we should envision CE as a cause of poor, as much as superior, performance and propose conceptual models that take into account its negative as well as its positive implications.

Like other scholars we are convinced that CE is “a contradiction in terms” (Stevenson & Jarillo, 1990), and we think it is therefore legitimate to question its value as an instrument of corporate development. In view of the growing propensity of corporations to elicit entrepreneurial behaviors from their employees and to implement various forms of CE, this calling in question seems all the more appropriate. In fact, we believe that the fate of CE as an organizational practice — whether it opens new horizons or becomes another business fad, or worse, a subtle instrument of domination — will depend on our ability to tackle CE with realism, taking into account the various issues it raises and finding whether and how they can be dealt with. Our purpose, in this paper, is to “realistically” appraise CE from the perspective of Corporate Strategy knowing however that a comprehensive treatment would require inputs from other management disciplines. We will demonstrate that, from a Corporate Strategy standpoint, CE can have unexpected and undesired consequences. Specifically, we believe that CE reinforces two risks: 1) the risk of strategic misalignment and 2) the risk of competitive advantage erosion. The article will explore in some depth the origin as well as the liabilities tied to these risks. We observe that many corporations rely on CE in order to reach their market and organizational goals. We believe that their capacity to successfully implement and maintain CE over time depends on the ability of their managers to face and mitigate CE’s strategic risks. In the last part of this article, we will advance some general propositions concerning the contextual and management variables that can contribute to the containment of these risks.

The paradox of Corporate Entrepreneurship

In a recent article, Sharma and Chrisman (1999) propose the following definition: “CE is the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization”. This definition has various merits, among which the fact that it singles out, in our view, the key tensions that confer CE its paradoxical nature. In this definition, the “new” and the “existing” have to coexist — the “new” is in fact nested in the “existing” (Burgelman, 1983b), the “individual” and the “organization” which are usually located on different planes are closely associated in the pursuit of a common endeavor. To anyone familiar with business organizations, these associations appear problematical and raise many questions: how can innovation and individual initiative flourish in the midst of a highly structured environment ? should corporations rely on individuals to foster innovation and renewal ? is it safe, efficient ? how can individuals and organizations associate ? what does it imply in terms of respective responsibility, role and retribution ? etc. Various authors have emphasized the paradoxical nature of CE (Burgelman, 1983b; Kanter, 1985; Kanter et al. 1990; Stevenson & Jarillo, 1990), however the issues that result from this paradoxical nature and are inherent to CE have not been systematically addressed. Before we present our contribution to a more systematic treatment of these issues, we will restate the terms of the CE paradox.

The close association of two antithetical realities, the reality of Corporate Management on the one hand, and the reality of Entrepreneurship on the other, has been identified by various authors (Stevenson & Gompers, 1985; Kanter, 1985; Kanter et al., 1990; Stevenson & Jarillo, 1991) as the source of the CE paradox: let us briefly summarize what opposes these two realities.

Entrepreneurship vs. Corporate Management

At the root of the differences between Entrepreneurship and Corporate Management, stands the deep divide that oppose exploration to exploitation. The exploration/exploitation antagonism is a central theme in Management and Organization sciences (March, 1991, Axelrod & Cohen, 1999). It has interested various researchers whose writings, in spite of the great heterogeneity of the terminology employed — Abernathy’s “productivity dilemma” (1978), Kanter’s “Mainstream vs. Newstream” (1990), Ghemawat & Ricart i Costa’s “Dynamic vs. Static Efficiency” (1993) — all point in the same direction: the marked differences between the two types of activity, their problematic co-existence, the necessity of striking a balance. Entrepreneurship, which implies identifying non-addressed needs, proposing original solutions and creating new organizations (Stevenson & Gumpert, 1985; Stevenson & Jarillo, 1990; Venkataraman et al., 1992; Gartner et al., 1992; Venkataraman, 1997) is centered on exploration while Corporate Management, which focuses on optimizing the use of existing resources, making judicious allocation decisions and controlling their correct utilization, is centered on exploitation: not surprisingly the two realities collide. Entrepreneurship is exposed to “the liabilities of the new” (Venkataraman et al., 1992) and to failure¹. The entrepreneurial process is complex and uncertain (Burgelman, 1983a; Kanter, 1985; Venkataraman et al., 1992). Corporate Management, on

¹ In the U.S., about 80% of all new ventures fail within the first five years (cited in Kanter, 1990).

the contrary, because it aims at “doing better what it already does well” takes place within a familiar context, can capitalize on past experience and apply proven recipes. It is consequently less exposed to failure than Entrepreneurship and is in fact characterized by a marked “anti-failure bias” (Stevenson & Gumpert, 1985, McGrath, 1999).

As various authors have emphasized (Stevenson & Jarillo, 1990; Venkataraman, 1997; Floyd & Woolridge, 1999; Sharma & Chrisman, 1999), individuals are at the heart of the entrepreneurial process. These individuals — the Entrepreneurs — are self-determined and freer than their Corporate Management counterparts. Corporate Managers are bound to their organization — as trustees and employees — and to their colleagues — on whom they depend for resources and legitimacy. These differences in terms of status have important behavioral implications. Entrepreneurs’ strategic orientation is driven by their personal perception of opportunities (Shane & Venkataraman, 1999), while Corporate Managers’ strategic orientation is driven by the resources they control (Stevenson & Gumpert, 1985). Entrepreneurs, unburdened by internal politics and administrative heritage, can modify their plans at will and adapt them to changing opportunities and conditions (Stevenson & Gumpert, 1985). By comparison, Corporate Managers have little flexibility: their decisions have to factor a myriad of administrative and political constraints and are biased towards large up-front commitments (Stevenson & Gumpert, 1985). In order to survive, Entrepreneurs need to “perform miracles” i.e., to overcome various critical project hurdles with very limited resources, except for their ingenuity and social capital (Green, Brush & Hart, 1999). Corporate Managers, on the contrary, can use the vast pool of resources to which they have access to “arrange a negotiated environment” (Cyert & March, 1963) and reduce the risk of failure.

Given the radical differences between Entrepreneurship and Corporate Management, we can imagine that CE, which presupposes their coexistence and integration, is bound to generate serious issues and conflicts. The problem is further complicated by the fact that Entrepreneurship and Corporate Management do not stand on equal footing: in CE, in effect, the entrepreneurial process does not take place at the margin of the corporation but within the corporation. Because it is embedded in the corporation, CE — the “newstream” — depends on and competes with the “mainstream” for its resources and legitimacy (Kanter, 1990). CE will be assessed — and consequently supported — according to criteria set by Corporate Managers, criteria that usually reflect a strong bias towards efficiency and risk avoidance. CE must take place in a rigid and partitioned environment which limits the freedom of action and the circulation of information which are so important for its success. Because they ultimately control Corporate Entrepreneurs and the resources they utilize, Corporate Managers are often tempted to instrumentalize CE i.e., to use it as an efficiency maximizing tool rather than as a development tool, however problematic this might result (Kanter, 1991). In mature organizations, Corporate Management values and norms are dominant and those who are not part of the “mainstream” belong to a minority: as minority members, Corporate Entrepreneurs are more likely to receive inadequate support and recognition. Finally, even though they usually enjoy some autonomy, Corporate Entrepreneurs ultimately remain employees, contractually bound to, and rewarded by the corporation.

Unsurprisingly, the implementation of CE is fraught with difficulties. Case studies mention serious problems and high failure rates (von Hippel, 1977; Kanter, 1990, 1991; Block & MacMillan, 1993; Gompers & Lerner, 2000; Hamel, 2000). Let us summarize some of the recurrent issues reported in the literature.

Some issues inherent to Corporate Entrepreneurship

Conflicts

The potential sources of tension between Entrepreneurship and Corporate Management are too numerous and diversified to remain latent and most case studies provide long and detailed accounts of the various types of conflict that their coexistence generates. The nature and intensity of these conflicts depends on various factors but particularly on the degree of formalization of the CE process and the organizational design chosen to support the process. Designs that maximize autonomy² such as New Ventures Divisions or Corporate Venture Funds have been shown to generate a great deal of organizational conflict (Fast, 1978, Burgelman & Sayles, 1986; Block & MacMillan, 1993; Kanter, 1990; Gompers & Lerner, 2000; Chesbrough, 2000). Autonomous CE entities enter in conflict with established operating divisions (horizontal conflict) over issues that range from disagreement over respective territories, fight over shared resources, to feelings of envy and mistrust. Fast (1978) has observed that the intensity of horizontal conflict was proportional to the resource requirements and therefore to the success of the autonomous entity. Designs that maximize autonomy also generate vertical conflicts between the CE entity and top management: these conflicts arise as a consequence of top managers' desire to fully control the entity and from the entity's refusal to be managed and assessed like a regular business division. Chesbrough (2000) observes that top management attempts to manage venturing entities like established divisions i.e., applying the same methods and performance criteria, usually backfired and led to poorer rather than improved performance.

What happens when CE is not contained within an autonomous structure but takes a more dispersed form (Birkinshaw, 1997)? Organizational conflicts will be replaced by personal conflicts (Kao, 1989). Conflicts will be managed by the corporate entrepreneurs themselves who will have to strike their own balance between the requirements of exploration and exploitation and overcome with their own means the obstacles created by their environment. But the main problem associated with dispersed — and informal³ — CE is the risk of inconsequentiality.

² i.e., being protected from the day-to-day operations and reporting requirements of the parent corporation and allowed a degree of self-sufficiency till viability has been achieved (Burgelman & Sayles, 1986).

³ Zahra (1993) defines informal CE as a type of CE that is based purely on employees' initiatives in absence of any formal organization sponsorship.

Inconsequentiality

CE is inconsequential when it concerns too few people within the corporation and/or generates only marginal improvements. The hostile environment in which dispersed and informal CE are supposed to flourish tends to select out ambitious projects and less than exceptional individuals. In these forms of CE, corporate entrepreneurs continue to perform their everyday tasks and to respond to their regular boss: there are no guarantee that they will be given sufficient time and freedom if their project takes off. The absence of supportive colleagues and superiors will also act as a damper on the creativity and daringness of would be entrepreneurs. In absence of proper support and incentives, dispersed CE programs tend to produce only marginal improvements and amount to little more than quality improvement programs (Kanter, 1991a). Only individuals with superior qualities in terms of experience, drive, connections and resourcefulness will be able to thrive in these conditions and bring the internal venturing process to completion (Burgelman, 1983a, Kanter et al., 1991; Hamel, 2000).

Early withdrawal

Literature provides various accounts of early withdrawal from CE. Studies on Corporate Venturing have shown that few programs were deemed successful and pursued beyond their first years of existence (Fast, 1978; Kanter et al., 1990; Block & MacMillan, 1993). The motives that lead to withdrawal are varied and complex: they can be circumstantial (e.g., the arrival of a new CEO), dictated by a shift in strategic priorities resulting from changing conditions (e.g., reduced emphasis on retention objectives due to diminishing tensions in the labor market) but very often, they result from top management's inability to properly measure CE's benefits. "Cultural" benefits such as increased motivation, enhanced creativity or organizational learning are more difficult to measure than financial benefits: as a consequence, financial benefits often become the primary if not the only criteria for evaluating CE programs, inducing an undesirable bias. In effect, when assessed from a strictly financial perspective most CE programs show mediocre results⁴ and if cultural benefits and spillover effects are not taken into consideration, CE programs can easily be viewed as failures and discontinued. On the other hand, studies indicate that in order to be financially successful, CE programs have to enjoy complete strategic and operational autonomy, including the freedom to seize opportunities independently of synergies with existing business (Burgelman & Sayles, 1986; Chesbrough, 2000). From a corporate standpoint, the "raison d'être" of these highly profitable but totally unrelated CE entities appears very questionable, and for this reason, they are usually dismantled after a few years of existence (Kanter, 1991; Gompers & Lerner, 2000). From a Corporate Management standpoint, CE programs are easy targets — they can be criticized on account of their high failure rate and mediocre financial returns and if they yield high profits, they can be criticized because of their lack of synergies with the existing business. Not surprisingly, CE programs constitute "unstable organizational forms" (Kanter, 1990) that are easily disposed of.

⁴ Nearly 50 percent of new corporate ventures do not reach profitability within 6 years, in the same interval of time, only one company in seven finds that its corporate venturing activity yields ROI greater than that of its base business (cited in Block & MacMillan, 1993).

It should now be apparent why Corporate Entrepreneurship constitutes, in theory and in practice, such a fine challenge and why certain authors have not hesitated to call it an oxymoron. CE is not a panacea and seems to generate as many issues as it solves. These issues are too numerous and diverse to be examined in a single instance and from a single disciplinary lens. This is why we will now focus on what we consider to be critical strategic issues, hoping that scholars from other disciplines might further and complete our attempt at systematically identifying and addressing the issues inherent to CE.

CE from the perspective of Corporate Strategy

Up to recently, the perspective of Corporate Strategy over CE has been essentially a firm level perspective. A good part of CE theoretical articles (Miller, 1983; Jennings & Lumpkins, 1989; Covin & Slevin, 1991; Zahra, 1993; Dess, Lumpkin & Slevin, 1997) has been dedicated to the elaboration and refinement of models that attempt to link the firm's overall performance to its adoption of an entrepreneurial posture⁵. In this article and in coherence with Sharma and Chrisman's (1999) definition of CE, we adopt a process perspective and try to link the firm's strategic capability and position to its involvement with CE.

Like several authors (Stevenson & Jarillo, 1990; Sharma & Chrisman, 1999; Floyd & Woolridge, 1999), we believe that CE's most original characteristic is that it relies on individuals qua individuals. The implications of this specificity have not been fully weighted, let alone understood. We think, for example, and we will attempt to demonstrate it, that the central role played by individuals qua individuals can have a negative impact on the corporation's ability to pursue and implement its strategic goals and to preserve its competitive advantage over time. In other words, we believe that CE reinforces 1) the risk of strategic misalignment and 2) the risk of competitive advantage erosion.

The risk of strategic misalignment

It is not possible to rely on personal initiative and commitment without increasing the autonomy of individuals and consequently the risk that their personal projects might diverge from the key strategic alignments of the corporation. An effective CE program will give rise to a large number of initiatives, whose degree of relatedness with the corporation's core activities cannot be fully determined in advance: to this extent, CE reinforces the risk of strategic misalignment.

Coherence and focus are central tenets of strategic thinking (Glyn, Barr & Dacin, 2000) and the negative consequences of strategic misalignment have been amply described in the literature. The first call for coherence and focus can be traced back to the seminal work of Ansoff (1965) in which he enjoined managers to identify "the common denominator" of the corporation and "to maintain the common thread". Ansoff was reacting to the over-diversification of American corporations common at

⁵ CE is defined after Miller (1983) by Covin & Slevin (1991) as "a dimension of strategic posture represented by a firm's risk-taking propensity, tendency to act in competitively aggressive, proactive manners and reliance on frequent and extensive product innovation."

the time. His call has been echoed throughout the “pruning” seventies and eighties by consulting firms with their portfolio analysis techniques, strategic thinkers such as Hofer & Schendel (1978) with their emphasis on “domain definition” or management gurus such as Peters & Waterman (1984) underlining the necessity to “stick to the knitting”. As Stimpert et al. (1998) show, coherence and focus are also fundamental dimensions of the “corporate identity” concept. In effect, the benefits of a strong identity are attributable not only to the advantages that derive from a superior image, but also to the focus this identity provides to decision makers — allowing them to devote their attention to key issues, to better allocate resources and correctly align processes, methods and fixed assets — and the coherence it helps preserve by establishing clear boundaries that allow organizational members to pursue congruent initiatives. The recent “resource-base strategy” school continues to emphasize the importance of coherence and focus. Managers are enjoined to concentrate on those few resources and competencies that are unique and distinctive so as to maximize returns on internal resources and erect formidable barriers against competitors (Prahalad & Hamel, 1990; Barney, 1991; Grant, 1991) and to outsource the activities for which the firm has neither a critical need nor special capabilities (Quinn & Hilmer, 1994).

The focus and coherence tenets have an immediate corollary: diversification should to be envisioned with extreme caution. Various authors (Rumelt, 1982; Montgomery & Wernerfelt, 1988) have underlined the risks inherent to diversification and enjoined managers to diversify prudently and only at certain conditions. For Montgomery & Wernerfelt (1988), diversification is justified if it allows the firm to “reduce excess capacity of factors that are subject to market failure” i.e., to better exploit unique resources. The dangers of unrelated diversification have been clearly exposed by Rumelt (1982): among them, an inefficient use of resources due to the absence of synergies between new and existing activities and a relative erosion of the firm’s competitive advantage that cannot be transferred to the new activity.

Diversification also taxes the brain of decision makers which find themselves testing the limits of the mental schemas — the “dominant logic”— that allow them to make intuitive and appropriate decisions (Prahalad & Bettis, 1986). Finally, diversification can lead to a loss of control (Hoskinsson et al., 1991) on the part of Corporate Managers who are not “adequately informed about the internal operations and external environment of divisions” (Ellsworth, 1983 in Hoskinsson et al., 1991) or, on the contrary, overwhelmed by an excess of information.

CE, which implies the pursuit of a large number of related and unrelated initiatives, is the antithesis of focus and coherence and as such raises a number of issues. CE diverts valuable resources away from the “mainstream” or core business: technical and financial resources, of course, but above all, the time and mental energy of highly skilled managers and technologists (Greene, Brush & Hart, 1999). Corporate entrepreneurs, like their independent counterparts, tend to “pursue opportunities without regard to the resources they currently control” (Stevenson & Jarillo, 1990). The opportunity driven behavior of corporate entrepreneurs encourages them to venture outside the domain of activities and competencies of the corporation and to care little about synergy and relatedness. This behavior increases the exposure of the corporation to the liabilities of unrelated diversification i.e., inefficient use of existing resources, erosion of the competitive advantage and dramatically amplified risk of

failure. CE, to the extent that it promotes divergent behavior, can also be seen as a factor of erosion of the corporate identity.

Because CE encourages the simultaneous pursuit of a large number of small scale projects, it can lead to the spreading thin of managerial attention and the emergence of a control risk. (Hoskinsson et al., 1991). The natural tendency of CE projects to “hide out” or “go underground” (Kao, 1989) makes this problem all the more preoccupying. The lack of managerial control over proliferating initiatives can have dramatic consequences: even though the losses associated to a single failed initiative are usually limited, the accumulation of many small losses can have a significant impact on the corporation’s overall level of performance. Companies like Xerox or Salomon in the eighties, both endowed with a strong entrepreneurial culture and abundant slack, have experienced the painful consequences of uncontrolled divergence. Unchecked corporate entrepreneurs can adopt misguided opportunistic behaviors (Burgelman, 1983b) and increase strategic risks by investing in risky assets, striking deals with unreliable counterparts, making unrealistic commitments or behaving in ways that can damage the corporate image (Simons, 1999).

Finally, CE raises issues because its spontaneous/emergent character (Gartner et al., 1992) is not compatible with corporate managers’ belief in the deliberate nature of the corporate development process. CE, in effect, is a bottom-up process that depends heavily on “the attitude of individuals below the ranks of top management” (Stevenson & Jarillo, 1990), “who are likely, at any time, to try to get their organization engage in activities that are outside of the scope of its current strategy” (Burgelman, 1984). This autonomous behavior “is natural and comes about as the result of individual strategists seeking expression of their special skills and career advancement through the pursuit of initiatives” (Mintzberg, 1978; Burgelman, 1984). CE involves experimentation and learning by doing: it is an open-ended process, liable to many changes and re-orientations as it unfolds. Emergent, open-ended processes cannot be managed in the same way and with the same tools and techniques as induced processes. However, most corporate managers do not master these methods and techniques and as a result will either deny the profound differences between CE and more traditional development approaches or renounce to manage CE as an integral part of the corporation. In both cases, as we have seen, the consequences will be negative.

The decision to encourage autonomous behaviors on the part of employees can have negative consequences on the corporation’s ability to maintain its key alignments. To this extent, CE exposes the corporation to the liabilities of uncontrolled divergence i.e., loss of direction, poor exploitation of unique resources, waste, high failure risk and loss of managerial control.

The risk of competitive advantage erosion

We believe that the unfolding of CE can have notable consequences on the unique bundle of resources of the corporation and, consequently, on the sustainability of its competitive advantage. When the corporation relies on single individuals in order to foster innovation rather than on its constituted R&D teams and their well established routines, it indirectly favors the development of highly mobile resources at the expense of more embedded ones. In effect, the key resource of CE is

the corporate entrepreneur himself (Greene, Brush & Hart, 1999), a highly mobile resource as we will see.

The mobility of individuals depends on the idiosyncrasy (Dierickx & Cool, 1989) or specificity (Teece, 1986) of their skills: the more generic their skills, the more marketable and mobile should be their holders. Corporate entrepreneurs possess firm-specific skills — their knowledge and mastery of markets, technologies and internal processes — but also valuable generic skills which they acquire and reinforce as they go through the various stages of their venturing process. These “venturing” skills — knowing how to constitute and leverage social capital, how to elaborate a business plan, how to use resources with parsimony and ingenuity, how to elicit support from corporate champions, etc. — are highly marketable: they can interest competitors, corporations belonging to other industries, venture capitalists and, of course, the corporate entrepreneurs themselves who might decide to become independent. Through the venturing process, corporate entrepreneurs also develop their social capital. Their access to a growing network of acquaintances inside and outside the corporation’s boundaries will increase their visibility, marketability and consequently their mobility. Self-confidence, the byproduct of a successful venture, should also increase the mobility of corporate entrepreneurs. Finally, because they are highly marketable and because their contribution is relatively easy to identify, successful entrepreneurs are in a very good position to negotiate with the corporation and to capture a significant share of the rents they contribute to generate (Grant, 1991).

The high mobility of corporate entrepreneurs does not imply that they will automatically leave the corporation: to do so they need a trigger. With the rise of independent venture capital over the last decade, corporate entrepreneurs have great possibilities and incentives to test their talent outside the boundaries of the corporation (Chesbrough, 2000). Corporations try to attenuate this threat by reducing the reward gap between corporate and independent venturing. In many cases, however, corporate entrepreneurs do not leave because of financial reasons but because they are disappointed and frustrated. When individuals engage in risky and demanding activities, they do so on the basis of a psychological contract with the corporation (Rousseau, 1995; Leonard-Barton, 1992). Corporate entrepreneurs have tacit expectations concerning what will happen during the venture — in terms of corporate support — and after the venture — in terms of corporate rewards and recognition: if these expectations are not met, and this is not rare, they will feel betrayed and become exit candidates. In case of failure, an occurrence that is not well tolerated in most corporations (McGrath, 1999), corporate entrepreneurs might find themselves in an uncomfortable position and feel obliged to leave. Their departure will limit the corporation’s ability to “fail forward” i.e., to learn from their failure and to capitalize on this learning (Leonard-Barton, 1995).

What happens when corporate entrepreneurs leave the corporation ? The corporation will experience a loss in both human and social capital (Dess & Shaw, 2001). The loss in human capital can be severe, especially in a tight labor market context, but the loss in social capital could be even more damaging. In effect, in dynamic settings where formal rules do not apply, social capital — assets embedded in social relationships such as trust or shared understanding — is an essential organizational resource (Burt, 1992; Nahapiet, Goshal, 1998; Leana & Van Buren, 1999, Dess & Shaw, 2001). Corporate entrepreneurs are social capital generators par excellence: they use and

activate extended networks of trusted relations within and outside the corporation to get resources, build support and gain legitimacy (Zahra, Nielsen & Bogner, 1999). They broker relationships between individuals and fill the “holes” resulting from defective communication channels (Burt, 1992). When corporate entrepreneurs go away, critical links will be severed and whole areas of the corporation might become isolated from each other (Burt, 1992). Valuable but unformalized processes will be dropped and forgotten. Leana & Van Buren (1999) affirm that the loss of a few but key network members can cause irreparable damage to the corporation’s social fabric. Corporate entrepreneurs can also — it has been the case in the United States recently — bring along with them their most trusted colleagues (Cappelli, 2000), greatly damaging the intellectual and social capital of the corporation in the process. The exit of corporate entrepreneurs also increases the risks of imitation especially if their innovative idea does not require specific complementary assets in order to be commercialized (Teece, 1986).

CE exposes the corporation to the liabilities of individualization i.e., the negative consequences of relying increasingly on individuals qua individuals. Individuals are highly mobile resources, and corporate entrepreneurs particularly so. Because of their high marketability outside and the high visibility of their contribution inside, corporate entrepreneurs are well positioned to “hold up” a significant share of the rents they help generate. When they leave the corporation, these well connected individuals can seriously damage the corporation’s human and social capital. The decision to rely increasingly on individuals qua individuals can have negative consequences on the sustainability of the corporation’s competitive advantage and should not be taken lightly.

The potential benefits of CE need to be carefully weighted against the liabilities to which it exposes the corporation: the liabilities of uncontrolled divergence on the one hand, and the liabilities of individualization on the other. To make things worse, the two problems seem to be connected in such a way that attempts to limit one reinforce the other: the high degree of formalization and control required to limit uncontrolled divergence will compel corporate entrepreneurs to go outside the corporation in search of a more supportive environment; reciprocally, the constitution of an internal environment that is well adapted to the requirements of corporate entrepreneurs and provides them with sufficient autonomy increases the risk of uncontrolled divergence...

Exploring corporations’ propensity to engage into CE

If CE generates strategic risks then the propensity of a corporation to engage into it will depend on the way its managers perceive and control these risks. In the following part of this article, we will explore the various contextual and managerial factors that impact risk perception and control and we will advance some general propositions in which we link these factors to risk containment and corporate propensity to engage into CE.

General risk-taking propensity

The willingness of a corporation to engage into CE, to the extent that its management is aware of the risks inherent to it, should be positively correlated to its overall orientation towards risk. The

entrepreneurial posture literature (Covin & Slevin, 1991; Zahra, 1993; Dess, Lumpkin & Slevin, 1997) has explored the external, strategic and internal factors that induce corporations to take risk. Among the most significant ones, we can cite the dynamism and competitiveness of the environment of the corporation, the pursuit of a growth strategy, the values and traits of the top management team, the level of performance, the culture and structure of the corporation and its level of resource endowment. Dynamic (Miller, Droge & Toulouse, 1988) and competitive (Khandwalla, 1987) environments shorten the life of competitive advantages (Grant, 1991) and force corporations to engage into constant innovation. Corporations facing such requirements routinely engage into exploration (March, 1991) and their dominant culture will better tolerate failure, inefficiency and imperfect control: as a result, their acceptance of uncontrolled divergence should be significantly increased. A strong emphasis on growth also creates the conditions for a greater risk taking propensity. Scholars have established the existence of a positive link between “invest/growth situations and managers’ entrepreneurial posture” (Covin & Slevin, 1991). Ambitious growth objectives require managers to focus on the pursuit of opportunities rather than on the optimization of existing resources (Eisenhardt & Sull, 2000). When the pursuit of opportunities becomes strategic, Corporate Managers do not have a choice and have to accept the risks inherent to Entrepreneurship (Burgelman, 1983b). Growth strategies are in themselves risky: they increase pressures for performance, push the equipment and processes of the corporation at their limit, lead to the hiring of inexperienced employees and create the conditions for errors and omissions (Simons, 1999).

Scholars (Covin & Slevin, 1991; Zhara, 1993) have established that the values and traits of the top management team were important to explain corporate risk taking propensity. Similarly, corporate culture and structure can encourage or discourage business related risk taking (Burgelman & Sayles, 1986; Corwall and Perlman, 1990; Covin & Slevin, 1991). Cultural orientations such as authorizing the expression of unorthodox ideas, empowering lower level employees, perceiving change positively are correlated with the adoption of an entrepreneurial posture. On the contrary, there seems to exist a negative correlation between the level of formalization of the organization and its propensity to take risk (Khandwalla, 1977; Covin & Slevin, 1991).

The relation between performance and risk taking has been the object of several studies that point in different directions. For Staw et al. (1981) poor corporate performance leads to conservatism. For most authors, however, crisis constitutes an excellent innovation opportunity and they sustain that “poorly performing organizations engage in more risk taking than organizations that are performing well” (Singh, 1986; Moses, 1992). This observation is consistent with the limited rationality theory of the firm and Simon’s concepts of satisficing levels (Cyert & March, 1963; Simon, 1976). A survey of the literature points towards a complex relation between organizational slack and risk taking. Because it constitutes a buffer against downside risk and makes the legitimacy of experimenting less likely to be questioned (Thomson, 1967; Bourgeois, 1981) slack should be positively related to innovation and risk taking. Research seems to indicate that this is true up to a point (Singh, 1986; Moses 1992) but that beyond a certain level slack can discourage risk taking (Nohria & Gulati, 1995). Burgelman (1983b) identifies organizational slack as a critical factor in the emergence of CE initiatives.

P1: The factors that increase the corporation's general risk taking propensity (e.g., the dynamism and competitiveness of its environment, the pursuit of a growth strategy, the values and traits of the top management team and its culture and structure, a declining level of performance and an optimal level of slack) increase its propensity to engage into CE.

When CE becomes a low risk/low cost option

There are circumstances in which CE, in spite of its inherent hazards, constitutes a low risk/ low cost option. In a highly uncertain environment sticking to the focus and coherence tenets amounts to making a single large bet on the future and becomes risky. In an uncertain environment it is preferable to spread the risk over many small bets and the multiplicity and diversity of CE initiatives becomes a risk reduction factor. Furthermore, when many options have to be pursued simultaneously, the cost of pursuing one option becomes critical: CE initiatives, which require almost no up-front investment and use up resources with parsimony are more cost-effective than regular development projects. CE initiatives have other advantages vis à vis regular development projects: they are more flexible — single individuals or small groups will more readily reorient their efforts than organizational entities, and commitment is fully adjustable — investments can be increased progressively, closely reflecting the corporation acquisition of knowledge about technology, market and competition. CE initiatives, which begin small and get thoroughly assessed before any further step is taken, can be seen as real options “that can be exercised or extinguished at the right moment thus entitling the corporation to improve the pay-off of its strategic choices” (Courtney, Kirkland & Viguerie, 1997; McGrath, 1999).

When time to market is more important than quality of outcome, CE becomes a highly efficient development tool. In effect, the autonomy and freedom of corporate entrepreneurs allow them to work and to react much faster than regular project teams, reducing the risk of missing the window of opportunity.

P2: In certain conditions — high uncertainty and speed requirements — CE constitutes a low risk/low cost option that will be adopted on this account.

Controlling the strategic risks inherent to CE

The propensity of corporations to engage into CE and to remain so will depend, at least partially, on the ability of its managers to control and mitigate the risks inherent to it. Specifically, managers must be able to maintain the divergence of CE initiatives and the mobility of corporate entrepreneurs within acceptable limits. This involves a wide range of organizational processes and managerial interventions that deserve to be studied in detail since they very much condition the value of CE as a corporate development tool. In the following paragraphs, we will try to advance a few general propositions that hopefully can stimulate further reflection and research.

Selection mechanisms. CE, which can be seen as a variety increasing device (Burgelman, 1983b), would not be complete without the corresponding variety reducing mechanisms. Whenever CE programs are created, formal selection mechanisms that aim at promoting certain initiatives and eliminating others are put into place. They take the form of explicit program goals, norms and

procedures, standardized project evaluation criteria and methods, or formal approval instances. Good selection mechanisms should reduce the risks inherent to CE by insuring that the various selected initiatives fall within an acceptable scope, that they are reasonably resource consuming and that they do not generate excessive conflict. They should protect the corporation but also the individuals, insuring that they do not take inconsiderate risk or get trapped in dead-ends. This is apparently easier said than done and CE case studies are replete with examples of faulty selection mechanisms. In some cases, probably in an attempt to control the risk of uncontrolled divergence, very tight selection mechanisms are put into place: unfortunately, as we have seen, these tight selection mechanisms drastically reduce the frequency and the originality of individual initiatives or limit the population of corporate entrepreneurs to a handful of “corporate heroes”. Tight selection mechanisms are not always the result of a deliberate choice. Over time CE programs can fall prey to bureaucratization: approval processes become increasingly complex and time-consuming, restricting the number of approved projects and discouraging most would be entrepreneurs (Kanter, 1991b). Finally, selection mechanisms go well beyond what managers deliberately put in place: the whole corporate environment with its implicit norms, its rules, strategic orientations and operational constraints constitutes in itself a powerful selection device that can significantly limit the number and scope of CE. In order to neutralize the impact of these informal but powerful selection mechanisms, corporate entrepreneurs are often placed in ad-hoc, autonomous structures. As we have seen, however, the performance of these autonomous entities does not always meet the expectations of Corporate Managers. In effect, the formal and informal selection mechanisms at work in these autonomous entities are usually poorly aligned with the ultimate goals of the corporation. Resource endowment also constitutes an implicit selection mechanism that in many cases is not used properly. Corporate Managers are biased towards high up front commitment (Stevenson & Gumpert, 1985) and tend to bestow excessive resources in the initial phases of the CE process, bending the very effective selection mechanism that scarce resources impose on emergent projects and would be entrepreneurs (Chesbrough, 2000). On the contrary, Corporate Managers are often reluctant to fund adequately promising and ambitious ventures that are on the verge of becoming fully fledged businesses.

When corporate entrepreneurs remain integrated to the corporate structure, their working environment tends to be over-selective, however, when corporate entrepreneurs are isolated from the rest of the organization, selection mechanisms become too weak to insure strategic alignment. We believe that at the root of this apparent dilemma stands a confusion between strategic and operational autonomy. The autonomy required by corporate entrepreneurs is mainly an operational autonomy which concerns the means or the “how”, while the autonomy that needs to be actively managed from a corporate standpoint is essentially a strategic autonomy regarding the goals or the “what”. Effective selection mechanisms should guarantee the proper strategic alignment of CE initiatives while preserving their operational autonomy.

In order to insure the strategic alignment of CE initiatives, the corporation must be able to clarify and communicate the domain within which exploration is legitimate. A rigid domain definition in terms of products, markets and even competencies will unduly restrict the range of envisioned opportunities. Instead corporate managers should provide very broad directions and ensure that what is indicated by

corporate managers and what is proposed by corporate entrepreneurs can dynamically interact. Eisenhardt & Sull's concept of "simple rules" (2001) seems particularly adequate in this context: by establishing and communicating simple rules that broadly specify approaches (how to), boundaries, priorities, timing and exit, the corporation provides would be entrepreneurs with both direction and flexibility. Another way of insuring proper strategic alignment is to limit the isolation of autonomous CE entities and to foster regular exchange between corporate entrepreneurs and their mainstream colleagues, making sure that they benefit from each others' inputs and criticisms (Day et al., 2001).

The level of operational autonomy required by CE initiatives very much depends on their stage of development. In their early stages, most initiatives have very modest proportions and can be pursued within the existing organization. Once their conceptual validity has been demonstrated, ventures will need a great deal of operational autonomy in order to grow and might benefit from being transferred to an ad-hoc structure. Once their business viability has been established, ventures can follow different paths: they can return to where they come from, give birth to a new business unit or be disposed of, depending on their level of strategic and operational relatedness (Burgelman, 1984). In order to meet the evolving strategic alignment and operational autonomy requirements of each initiative, managers must be able to design different environments and to timely and smoothly move projects and individuals from one environment to the other (Day et al., 2001).

P3: In order to reduce the risk of uncontrolled divergence without making CE inconsequential, managers must be able to design and implement finely articulated selection mechanisms that ensure the strategic alignment of CE initiatives while preserving their operational autonomy.

Over time, corporations will face new challenges and constraints that can modify the significance and the goals of their CE programs. It is important that selection mechanisms faithfully reflect these shifts. Selection mechanisms in fact should be continuously assessed and redesigned in order to take into account emerging needs and constraints and to benefit from the learning that results from the corporation's growing experience with CE.

P4: In order to reduce the risk of uncontrolled divergence without making CE inconsequential, managers must be able to design and implement adaptive and learning selection mechanisms.

Retention mechanisms

In a prior section of this article, we have seen that the decision to engage into CE was not neutral from a competitive advantage standpoint. Corporate entrepreneurs are in a good position to get a significant share of the rents they contribute to generate and they are highly mobile resources whose exit can damage the corporation's human and social capital. In order to control what we have called the liabilities of individualization, managers have to design and implement adequate retention mechanisms.

Many managers assume that the problem of retention is reducible to a problem of compensation and that if valuable individuals are proposed attractive salaries and pay-based incentives they will not leave. Unfortunately, this assumption is false on several accounts (Cappelli, 2000). First, research has

established that people engaged in CE for pecuniary and non pecuniary motives such as the need for achievement and job satisfaction and that in large corporations, the non pecuniary motives dominated (von Hippel, 1977). Second, pay based retention mechanisms are easily matched by competing organizations — established companies or venture capital funds (Cappelli, 2000). In order to retain valuable individuals, corporations have to offer more than attractive financial rewards. What kinds of rewards will work ? There are no simple answers to this question, since each corporate entrepreneur has different motivations and expectations. In order to retain corporate entrepreneurs, managers should probably know better their motivations and expectations and propose customized rewards and incentives (Cappelli, 2000). Valuable individuals have a lot of bargaining power but large, diversified organizations can offer them an almost infinite number of perks above and beyond financial incentives (e.g., transfer to a new unit, transfer a different country, training, sabbatical year, flexible schedules, etc.). In particular, large corporations constitute rich milieus in which individuals are able to create and maintain strong social ties. Socially integrated individuals will develop an attachment and sense of loyalty towards their colleagues that can reduce turnover (Cappelli, 2000; Dess & Shaw, 2001). However, as Ghoshal & Bartlett (1997) suggest, the ultimate retention mechanism could be meaning. Individualized corporations i.e., corporations whose success relies on the commitment of highly talented and mobile individuals, could ultimately attract, motivate and retain these individuals by proposing them, for example, a more meaningful model of the firm⁶.

P5: In order to reduce the mobility induced by CE, managers must monitor the motivations and expectations of each corporate entrepreneur and propose congruent rewards and incentives.

In today's tight labor market context, many corporations cannot avoid high turnover and are instead finding ways to alleviate its negative consequences (Cappelli, 2000). They try and predict attrition and plan recruitment needs accordingly, they attempt to make people more replaceable by encouraging proper record keeping or they focus on retaining people just until a project is completed — an easier task than building long-term commitment, etc. (Cappelli, 2000). Another way to mitigate the negative consequences of turnover is to maintain good relations with ex-employees so that they continue to be a part of the corporation's informal and formal network, a policy that auction houses and consulting firms have applied with great success. A few years ago, the fast growing turnover of competent and experienced professionals was perceived as a major threat by firms belonging to these two sectors. After a few years, however, many of them discovered that their ex-employees seldom became competitors but on the contrary pursued complementary activities and that, in many instances, collaborative arrangements could be established. We believe that corporations faced with the liabilities of individualization can learn from these experiences. When they possess unique and hard to replicate resources, corporations have little to fear from departing individuals, however talented these might be. If corporate entrepreneurs cannot be retained, corporations should accept their departure gracefully so that mutual trust and esteem are preserved and the conditions for future cooperation maintained.

⁶ Ghoshal and Bartlett (1997) propose a model of the firm as a “value creating institution” i.e., “not just an economic entity but also a social institution that allows individuals to behave more cooperatively and less selfishly than they would in an economist's free market.”

P6: In order to reduce the liabilities of individualization, managers must maintain good relations with departing corporate entrepreneurs and promote continued exchange and cooperation.

Failure acceptance

We have seen that selection and retention mechanisms had an important role in the control of the risks inherent to CE. Before we conclude this section we would like to mention what we view as an equally important factor: risk acceptance i.e., the extent to which the organization and its management are able to cope with failure. We believe that failure acceptance ultimately helps the corporation reduce the liabilities tied to both uncontrolled divergence and individualization. Failure acceptance increases the probability that errors will not be hidden but, on the contrary, discussed and transformed into learning (Leonard-Barton, 1995; McGrath, 1999). Failures are occasions to acquire strategic knowledge that can be transformed into a major advantage in subsequent projects. When corporations learn from their failures, they reduce the cost of experimenting (McGrath, 1999) and thus the liabilities tied to uncontrolled divergence. Failure acceptance also helps corporations retain corporate entrepreneurs since both successful and less successful corporate entrepreneurs will appreciate the fairness and coherence of an organization that encourages them to take risk but “does not heap financial and social sanctions upon those who explore” (McGrath, 1999).

P7: In order to reduce the risks inherent to CE, managers must be able to learn from it and to refrain from sanctioning committed but unsuccessful corporate entrepreneurs.

Conclusion

Because CE constitutes a “contradiction in terms” it raises, independently of the context and modality of its implementation, a number of complex and interrelated issues. Case studies show that most corporations have a hard time managing the inherent contradictions of CE. Yet, more and more corporations would like to elicit entrepreneurial behaviors from their employees and are thinking of CE as a potentially effective corporate development tool. In these conditions, it becomes legitimate to try and realistically appraise CE by determining whether and how the issues it raises can be dealt with.

From a corporate strategy standpoint, CE raises critical issues since it reinforces the risk of strategic misalignment and the risk of competitive erosion. Because it relies on autonomous behavior, CE exposes the corporation to the liabilities of uncontrolled divergence i.e., loss of direction, poor exploitation of unique resources, waste, high failure risk and loss of managerial control. Because it relies on individuals qua individuals, CE exposes the corporation to the liabilities of individualization, i.e. the progressive erosion of its competitive advantage as a result of the increasing mobility and decreasing appropriability of its resources.

Are these strategic risks acceptable ? Does CE remain a valuable instrument of corporate development ? The answer to these questions is conditional. It depends on corporate managers' risk perception and control ability which are themselves influenced by various internal and external factors. In certain conditions — a dynamic environment, a strong growth imperative or a foreseeable decline in

performance — corporate managers have to take more risk and will be more willing to engage into entrepreneurial activities. In conditions of high uncertainty and tight time-to-market requirements, the traditional high commitment/strong focus recipe becomes risky while CE, because of its flexibility and the diversity it generates, becomes, by comparison, a low cost/low risk option.

Strategic risks will be more acceptable if they can be contained. Selection mechanisms in the broadest sense play a key role in the unfolding of CE and their primary goal is to reduce the risk of uncontrolled divergence. They should be designed to simultaneously respect strategic alignment and operational autonomy requirements and to reflect changing priorities and learning. Sophisticated and customized retention mechanisms will help reduce the mobility of corporate entrepreneurs and the downside of individualization. Finally risk acceptance can contribute to reduce both the cost of uncontrolled divergence and the mobility of corporate entrepreneurs.

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