Researching Corporate Entrepreneurship:
Theory and methods for the corporate entrepreneurship track at Chalmers School of Entrepreneurship 2015

by

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Preface

Chalmers School of Entrepreneurship has a master program called Entrepreneurship and Business Design. In spring 2015 the first class from a newly developed branch, emphasizing Corporate Entrepreneurship, graduated.

During their final year, the ten corporate entrepreneurship students were divided into four teams and connected with four established firms in need for innovation. Each team was put in the driver´s seat for an entrepreneurial project within respective company. While working with the projects, the students gathered data in order to create learnings for their master thesis and to contribute with knowledge to corporate entrepreneurship field.

Four areas of interest to investigate from a corporate entrepreneurship perspective were identified;

- *Strategy and organization design*
- *Organizational change*
- *Sales*
- *Finance*

For each of these four areas, a research question was formulated. This working paper describes each research question with a corresponding theoretical frame of reference and proposed method.

1 Research question: Strategy

Viktor Ansund, Anna Forshufvud, Lovisa Högberg

1.1 Introduction

We live in a fast changing world. Disruptive technologies and digital transformation is changing the very way we live our lives and inevitably the way companies do business. In many industries it is only the organisations that can change and adapt quickly to the swift market changes that manages to stay competitive and survive (Galbraith 1999). As a result, being able to capture and nourish innovation is the main goal of many companies operating in technology dependent industries today.

To achieve competitive advantage, research suggests that a company should focus on how its activities are linked together instead of focusing on individual activities (Porter 1997). This is because a change of an activity or usually affect other activities as well. For example a new Process might require a new Decision structure and foremost - the People that are working in the organisation might need a different Rewards system and new Capabilities in order to see the new process through. All these aspects or dimensions have to be taken into account when constructing new strategies for entrepreneurial projects.

1.1.1 Purpose

The purpose with this research is to better understand how a radical innovation can change the company's existing strategy, what challenges arise when changing the strategy and how one can overcome them. By doing so the aim is to give employees understandings that will help to more easily implement radical innovation in the organisation and increase the organisation's strategic adaptability.

1.1.2 Research question

When implementing radical innovations into an existing organisation, what challenges arise and what existing strategies needs to be changed to overcome these challenges?

1.1.3 Delimitations

The research is limited to only include the four different companies included in the research project and will not include any external companies, unless they naturally comes across the research teams path and offers an interesting comparison possibility. Moreover, the scope of above research questions is considered to overlap with the organisational change research carried out simultaneously. Organisational

culture is therefore not brought up in the literature investigation since the information will be managed in that chapter.

1.2 Theory

The following chapter gives the reader a preliminary understanding of what research says about sustainable competitive advantage and designing a reconfigurable organisation.

1.2.1 A Strategy with Competitive Advantage

A strategy is a plan to achieve goals. The essence of a strategy is according to the Michael Porter the activities a company chooses to perform differently than their competitors. A competitive strategy is about smart positioning against competitors in the market. A sustainable competitive advantage can be reached by creating a fit between a companies' many activities and also by positioning the company's activities against its competitors in the market (Porter, 1997). Research suggests that a company's advantage lies in the strategic positioning where the activity system and not the individual parts are critical. This means performing different activities from rivals' or performing similar activities in different ways.

A company's position is a result of the products perceived attributes. Customers categorize products into different segments. These segments can be mapped out using perception mapping to better understand the competitive landscape. Perception Mapping is a tool used to understand the customer's perception of a product and the position in the market. This is done by mapping a diagram with two different axes', which can be parameters customers might take into account when choosing between products (Ferrell & Hartline, 2007). When this is done, the competitors are mapped out on the perception map, and hopefully there will be an open spot in this market map for new products (Kardes, 2010).

Newcomers comparing to old companies per definition are not locked into existing way of working and competing in the industry. Compared to incumbent's newcomers are more flexible because they face no trade-offs within their existing activities (Porter, 1996). This means that existing firms can be trapped in their own success. Therefore, for incumbents that have a reconfigurable organization it is easier to implement new activities and compete with newcomers. Professor Porter at Harvard Business School recommend organisations to be more quickly changeable since competitive advantages comes from many short-term advantages delivered through an easy transformable organization (Porter, 1996). A well-referenced model that supports the idea of changeable organisational is the star model, which is deliberated in the next chapter.

1.2.2 Designing a Reconfigurable Organisation

Jay Galbraith designed the star model to have a framework that helps management to make structural changes and align employee's behaviour with the new strategy. The star model is built from five dimensions that all depend on each other (see figure 1, next page). Change in one of the dimensions will most likely lead to change in the other dimensions. This star model concludes in to certain behaviour and that behaviour will define the companies' performance and culture (Galbraith 1999).
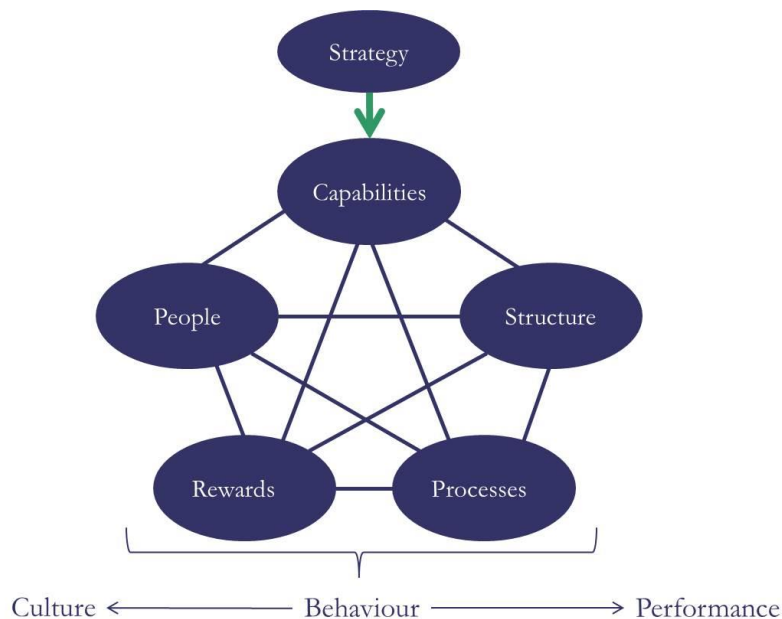

Figure 1. The Star Model (Galbraith, 1999)

The five dimensions are Capabilities, Structure, Processes, Rewards and People. Capabilities determine what the organization can do and its direction. Structure determines who and where decisions are made. Processes determine how the decisions are made and how information is distributed in the organization. Rewards determine the organization's incentive system, which determine employee's focus and thus the organization's goals. The fifth dimension is People this is where the organization determines what kind of competence and mind-set this organization value and acquire. The star model results in a behaviour, the behaviour leads to a certain culture and performance (Galbraith 1999).

1.3 Methodology

The research strategy chosen to give answer to the above research question is based on an inductive strategy called insider action research. This strategy is based on that the researcher partakes in the research process to get an insider understanding of it, whilst combining this with stepping back and analysing the situation from theories learned. The insider action research is a way of understanding and changing organisations and by having the unique possibility to study the organisation from the inside (Coghlan, 2007).

As the research question aims to understand challenges inside an organisation and how to address them, the insider action research methodology is considered suitable for this purpose. To enable the insider researcher it is considered crucial to adapt the method of data collection to the different contexts they encounter and the selected methods are Activity mapping and continuously reflection based on the Star Model.

1.3.1 Activity Mapping

Activity mapping is a diagnostic tool to identify the organization's competitive advantage. It connects the organisation's value proposition to the activities of the organisation that enabling a better value proposition better than any competitors. (Business Strategy, 2012)

An initial activity mapping was done in order to understand what might happen in the organisation as the projects evolve. The activity mapping was then revisited after a few months to see if and how the mapping has changed and what challenges that has implied. A full version can be found in appendix B but the major five steps for mapping activity systems were:

1. Identify activities
2. Relate activities to positioning
3. Examine pairwise fit and look for clusters of activities
4. Sketch an activity map and substitute activities
5. Sense check

1.3.2 The Star Model

The Star Model has been used to define different areas to focus the data collection around. First a hypothesis was formulated based on predetermined questions like; what aspects from the Star Model are currently the most challenging? Why are they challenging? Has the challenge been addressed or how can it be addressed in the future?

During the course of the project certain continuous reflections and data collection has been conducted. Apart from continuously reflective journal, reflections have been done on challenges encountered during the week's activities and how they have affected the five aspects in the Star Model see appendix C.

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1.5 Appendices

1.5.1 Appendix A - Definition of key terms

Competitive advantage - when an organization acquires or develops an attribute or a combination of attributes that outperforms its competitors in the market.

Dimensions - the five dimensions of Jay Galbraith's star model. The dimensions are; Capabilities, Structures, Processes, Rewards and People.

Entrepreneurial strategy - a strategy needed to ensure the organization extracts, implements and leverage innovation from both within the organisation and externally.

Incremental innovation - something that makes a relatively minor change from (or adjustment to) existing practices. (Schilling, 2010)

Incumbents - companies that are holder of current position.

Innovation - something original, and as a consequence "new" that breaks into society or market. This could therefore be a new process, product or service.

Newcomers - newcomers to the industry, could be start-ups or companies that enter new industries

Radical innovation - something that is very new and different from prior solutions (Schilling, 2010)

Reconfigurable organization - an organisation that has the capacity and is willing to change their current strategies in order to develop their business.

Strategic position - performing different activities or attributes from rivals', or performing similar activities or attributes in different ways.

1.5.2 Appendix B - Five Steps for Mapping Activity Systems

The Five Steps - Mapping Activity Systems

1. **Identify activities**
   Brainstorm a long list of unique/special aspects of your company. Include many different types of things assets, resources, policies, culture and processes. Starting with the brainstorm will help you avoid missing things.
2. **Relate activities to positioning**
   Then start with the most important differentiated benefit from the Value Proposition. .Then ask yourself "How do we deliver this?". Draw the cause and effect tree through several layers of cause and effect

Examine pairwise fit and Look for clusters of linked activities
   Do the same for each differentiated benefit from the Value Proposition. Note common causes. Combine the cause and effect trees to one map, linked by the common causes
4. **Sketch an activity map and substitute activities**
   Use Post-Its or a whiteboard, shuffle to make links clearer. Best to do this as a team exercise, bringing in people from diverse parts of the company (if you want).
5. **Sense check**
a. From your brainstorm – is there anything important missing from your map?
b. Can you explain the business logic behind every cause and effect relationship?
c. Does it fit with your intuition? Differently positioned than rivals?

1.5.3 Appendix C - Star model Questions

Structure

- How are we organized?
- What are the key roles?
- How is the work managed?
- Who has power and authority?

Process

- How are decisions made?
- How does work flow between roles?
- What are the mechanisms for collaboration and communication?
- How do we sell?

Rewards

- What do we get paid for?
- How is behaviour shaped by the goals?
- What behaviour is rewarded?
- How do we assess progress?
- What is our incentive structure?

People

- What experience do they have?
- What skills are needed?
- How do we best develop our talent?

Capabilities

- How do we differentiate ourselves from our competitors?
- What can we do?

2 Research question: Organisational Change

Lotta Strömbeck and Katrin Wahlström

2.1 Introduction

The aim of this research is to investigate what prevents organisational transformation, from the perspective of the individual. There are numerous of examples of large corporations that have failed to keep up with competition due to inability to change, making it a topical subject. Many argue that complex hierarchical structures and organisational processes impede transformational and innovative behaviour (Wessel, 2012). Yet a lot of companies are in fact trying hard to adjust their structures to encourage change, and many without succeeding. Waterman et al. argued already in 1980 that structure is not what makes an organisation. Thus if the structure is not the only obstacle, is it cultural practices that stand in the way, or merely just the individuals themselves? As a result, this research will try and unveil what really stands in the way of individuals' ability, or willingness, to change. The study will be carried out in parallel with an entrepreneurial project, led by the researchers, which is likely to "stir the pot" within the company.

2.1.1 Purpose & Background

The purpose of the research is to gain a better understanding of what hinders organisational change. In today's competitive environment and rapid markets, where most companies currently find themselves, radical innovation and change is important for most companies to stay competitive (Kotter, 2012). And carrying out radical innovations within firms generally requires some sort of transformation, seeing that such projects often are in counter flow with existing activities and working routines. Much research has been carried out with focus on structural and cultural hindrances, such as hierarchy, low empowerment, work ethics, team spirit, etc. (Worley and Vick, 2005). Yet it is sometimes easy to overlook that organisational change also involves people, and that it comes down to what each and every individual is motivated by (Shani and Lau, 2008). Are they striving for change themselves, is it in line with their own self-interests, or are security and routines what they really want?

2.1.2 Research Question

To what extent do structural and cultural practices hinder organisational change from an individual perspective? What do employees believe are the obstacles? And what does observations suggest stand in the way?

2.1.3 Key Terms

Organisational change; Structural and cultural practices; Obstacles; Psychological barriers

2.1.4 Delimitations

The study will investigate *obstacles* for change, hence not include what encourage it. Neither will it provide recommendations. It will also be restricted to *one* specific company, where an entrepreneurial project is taking place, during a time period of 8 months. Moreover, the number of interviews is limited to maximum 5.

2.2 Literature Review

'Organisational change' refers to when a corporation is turning in another direction, and significantly modify its structure, as well as provide employees with a new vision for the future (Burke, 2011). Much literature has been written on managing people during these organisational changes, with the majority focusing on leadership qualities. Martin (2006) is however emphasising on the *motivations* of the followers rather than *who* will lead them. Levit (2014) suggests that change does not necessarily require *all* employees within the organisation to become followers, merely solid support from senior management.

Batshalom (2013) identifies three main barriers to change; (1) cultural barriers, (2) structural barriers, and (3) psychological barriers. The latter is different as it is dealing with an individual's thoughts and perceptions rather than a collective groups'. The cultural and structural barriers will however *impact* the psychological ones. Dawson (2003) argues that what mainly makes people resist company change, is if it may break the continuity of the working environment and create a climate of uncertainty. Seeing that change often involve redesigning of familiar structures, where traditional methods of work are being replaced and well-established relationships are being redefined, it is understandable that some will resist change. Dawson identifies the hindrances for people to accept change as: (1) change in skill requirement, (2) threat to employment, (3) psychological threat, (4) disruption of social working arrangements/relationships, and (5) lowering of status and authority.

Research suggests that changing structural processes is the easy part, changing the culture on the other hand is much more difficult. Even in the face of threat, where it is clear that the firm will not survive if it is not being altered, some people are still reluctant to change (Burke, 2011). Denning (2011) believes it is because an organisation's culture comprises interlocking goals, roles, values, communication practices, attitudes and assumptions. These elements fit together as mutually reinforcing system which prevents any attempts of changing it. He also says that "single-fix changes" such as introducing new processes, modifying structure, etc.

often work great for a while, but eventually the inevitable interlocking elements of culture take over and people fall back into old patterns. This phenomenon was also discussed in 1995 by Kotter in 'Leading Change', indicating that changing a culture entails greater hindrances than changing a structure. Galbraith (1999) argues that there are five dimensions of a company that he has organised in a STAR model, all of which are depending on each other and may therefore play a role in organisational change.

Regarding where culture actually derives from, the ultimate source of what creates culture is believed to be the influence of the founders. Founders often hire and keep employees of a certain type and mould these persons to *their* way of thinking and behaving. In turn employees tend to mimic the behaviour of their employers, and the ball is set in rolling (Agrawala, 2009).

When looking into 'behaviour change' at a more profound level, psychologists have for long debated if people *really* can change. Much evidence points to that it is possible, but very complex. Firstly, one has to be *motivated* to change. Secondly, the change must enroot during a *long* period of time (Jex, 2002). Rock and Cox (2012) suggest that there are five core issues which drive engagement at work; Status, Certainty, Autonomy, Relatedness and Fairness. It is referred to as the SCARF-model, and has been proven a useful tool for managers to be more attentive during organisational change (Boström, 2014). 'Status' is about relative importance to others, 'certainty' concerns being able to predict the future, 'autonomy' provides a sense of control, relatedness is a sense of safety with others, and 'fairness' deals with fair exchanges between people (Rock 2009 cited in SCARF360).

2.3   Methodology

2.3.1   Research Strategy

Research strategy is often divided into two main categories, *qualitative* and *quantitative* approach. The former aims to generate theory from data, and the latter relies on facts, logic and measurements (Bryman & Bell, 2011). In this study a qualitative approach was used. Furthermore, the categorisation incorporates different domains of the research strategy, where one domain is the main focus of the research. Hence, a research approach can either be deductive or inductive (Ollila, 2014). The purpose of the research was to gain understanding on what hinder organisational change, from in an individualistic perspective, while carrying out an entrepreneurial project. This opened up for a great opportunity to utilise an *inductive approach*, since the researchers were part of the organisation during the study.

2.3.2 Research Design

The research design describes the structure of how a study is conducted, thus including utilised methods for the data collection (Bryman & Bell, 2011). In this case, 'insider action research' was partly applied, as the project *caused* effects within the company (Ollila, 2014). And as the project required some sort of change due to its inability to follow current processes, it was easy to observe the reaction of the employees. In an insider action study, researchers combine their investigation with their day-to-day work; hence while being in the organisation (Coghlan & Davis, 2006; Raelin & Coghlan, 2007, cited in Coghlan, 2007). Ollila (2014) claims the researchers must try and be neutral and stay attentive, yet in a study like this that is very difficult if not impossible. Instead the researchers tried to be aware of the subjectivity in the derived results as well as analysation.

2.3.3 Collection of Data

The data used for the literature study was collected by utilising diverse search engines, such as Google books and Google Scholar. The literature consisted of books, articles and scientific journals. Theoretical framework also consisted of literature found at relevant web pages.

The empirical material derived from interviews with a maximum of five members of the company as well as continuous observations. Since the research only entailed few interviews, hence not providing a general view of all employees, the derived results merely acted as an indication of employees' perception. Yet, because interviewing is identified as the most frequently utilised method of qualitative studies, along with participant observations, it was perceived to contribute to the overall study (Bryman & Bell, 2011). The interviews were semi-structured and the researchers had guidelines that were followed. As one objective was to obtain information of what employees perceived as obstacles, the guidelines involved their view upon change, the company's view, their perception of hierarchy, communication, cross-functionality, decision-processes, personal goals and motivation, etc. For more information see Appendix I.

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2.5 Appendices

2.5.1 Appendix I: Interview guidelines

Name of interviewee:

Position in the organisation:

Department:

Age:

Gender:

Date:

1. Do *you* perceive the company's structure to be necessary in order for the organisation to function efficient?

2. How do *you* perceive cultural environment at *your* company?

3. Do *you* perceive it to be a clear hierarchy within the firm?

4. To what extent do *you* feel that the different departments within the organisation co-operate?

5. How do *you* perceive the interaction between people from different departments?

6. What do *you* see as the major hindrances for change at *your* company?

7. In general, how is change received and looked upon in the organisation?

8. What is *your* take on change?

9. Do you feel that you have the possibility to change things within the organisation?

10. Do you know how to 'go about' if you want to make a change within the organisation?

11. Are you working in a team, or is your work strictly individual?

12. To what extent do you feel that *you* can make your own decisions?

13. What is *your* professional goal?

    a. What makes you go out of bed every morning and go to work?

14. Do you often feel anxious when going to work?

3 Research question: Sales

Max Dubois and Elin Frisk

3.1 Introduction

Before any innovation, product, process or service is established in or by a company it was once an idea of a person or group of individuals. This section focuses on how that idea initially gathers followers who spread the message further, internal or external, in order to one day become institutionalized, and make or save the company money. Its complexity is best described by Machavelli (1532): "it ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.". Thus this study will focus on finding the essential factors to motivate ambassadors to take on and sell a new product successfully.

3.1.1 Purpose

Any individual who wants to turn an idea into a product at some point need to have additional people on board, either as colleagues or customers. The purpose of this study is to investigate how these ambassadors are found or created, as well as how their support can be increased, within a company.

3.1.2 Research question

How do corporate entrepreneurs obtain ambassadors who will help them sell their innovation?

3.2 Theory

The following section presents the most important theoretic foundation for the project. Thus only the most important theories will be described here, others will only be described briefly.

3.2.1 Successful sales force

Ambassadors are individuals who help to spread an idea, even if it is internal or external. In an organisations perspective those ambassadors could be a sales force. According to Rutigliano and Brim (2010) the most important aspect of a successful sales force is creating engaged employees by allowing them to utilise their strengths.

Their study has found 12 items that are the most important for creating engagement among the sales force, those can be summarized into; know what is expected and have to material to carry it through, receive feedback on performance in order to develop, involvement and contribution in idea and seeing the bigger purpose of the idea. By fulfilling this for your employees you will ultimately help the organisation to perform better.

Concerning the ideal structure of a sales force Zoltners, Sinha and Lorimer (2004) write that a successful sales force must be dynamic to be able to quickly change its structure to adapt to new markets and customers. When designing a sales force the key questions are:

- What is the role of a sales force?
- Are specialized sales personnel required?
- How are the efforts coordinated?
- At what levels in the organization are important decisions made?

3.2.2   Sales and motivation

In order to get ambassadors on board with the idea they need to be motivated. According to Jobber and Lancaster (2012) there are several different theories linked to motivating a sales force. Herzberg Dual Factory Theory argues that motivation can be affected by not providing hygiene factors, which will decrease the motivation, or by increasing the motivation through true motivators such as achievement, recognition, responsibility and interest of the work itself. Another theory is Vroom's expectancy theory that revolves around that the willingness to perform a task (effort) is dependent upon the expected reward (success). This is explained through using three perceived relationships; how effort relates to increased performance, which reward is linked to that increase performance and how valuable is that reward. From this it is possible to derive that increased training leads to increased motivation. This is affirmed in a study by the Learning International Organisation (1988), and also supported by Krishnan et al. (2002), and adds that training leads to increased self-confidence and motivation for the salespersons. Churchil, Ford and Walkers Model of Sales force motivation handles the previous stated relationships differently. It states that the sales force should be convinced that hard and effective work would result in higher sales. Then they should be convinced that that increased performance is worth the additional effort. Likert's Sales Management Theory is discussing other topics. It says that sales teams are mimicking the sales manager characteristics. Furthermore motivation is linked to how the sales team are constructed. Openness and interaction among the team members increases motivation whilst the contrary situation affected the motivation negatively. Two surveys conducted by Shipley and Kiely (1988) and Coulaux and Jobber (1989) asked what industrial and consumer goods sales personnel thought were most motivating for them in their work. In both surveys 'self-satisfaction from doing a good job'

came out on top together with achieving targets and receiving acknowledgement for their effort.

Carlson and Wilmot (2006) write about The Motivation Mantra in their book "Innovation - the five disciplines for creating what customers want". Their belief is that without the proper motivation innovation cannot happen. The three needs for motivation are Achievement, Empowerment and Involvement. First of all achievement is important as people feel the need to make an impact and create something meaningful. They must feel a sense of personal achievement to commit to innovation. Secondly there's empowerment. People need to feel that they are given the skills and vision to accomplish the task, without being micromanaged or told how to do things. Micromanagement can stifle the creativity necessary for innovation. Last there's a need for Involvement. When leading an innovation team you have to include all members in the decision-making process as otherwise they will not feel like they are allowed to contribute. This will ultimately lead to disengagement and frustration from your team-members.

3.3   Methodology

This section is divided into two parts where the first one is a review of methods relevant for us to answer the topic of this thesis. The second part is how the study will be conducted through this methodology and based on previous chapters.

3.3.1   Method review

In the early phase of the method review it became evident that we needed a research method that allowed the study to influence the organisation under observation. Action research was identified as a suitable method and this chapter outlines the basics necessary to understand to follow our process.

Berg (2009) means that action research is to this present day one of few research models that encourages involvement, participation and reflection with the research object. He defines it as a kind of collective self-reflective enquiry undertaken by participants in social relationship with a group in order to improve a condition they are all involved in. Schein (1987) means that Action research is based on the thought that one cannot change a human system without being a part of it. Only by absorbing the role and become a member of the system for a long period of time is it possible to understand it. Schein (1987) says that the process of action research starts with that the researcher develops a model of what results she is looking for, how she will interact with the system in order to receive them, which role she will play in the system and a time constraint during the observation or role play will be carried out. Berg (2009) describes a process of three parts; looking to create a picture of what is going on, thinking and reflecting over what you see and taking action to improve the situation. During the period when the researcher interferes with the

system there are several things to keep in mind means Schein (1987). When participating in a group the researcher should not start by observing and then try to interact and change according to the findings. The observation and questions asked while trying to adapt to the system are in themselves a factor that might change the system. The role of the researcher has to be thought through in advance so unexpected responses from people are the reactions you are looking for.

3.3.2 Our study

Based on our research question we will conduct a study at a company with the purpose of trying to affect potential internal ambassadors to spread an innovative idea further. In order to achieve this Berg's three phases should be carried through with different factors taken into consideration for each step;

- In the current situation, how is a certain stakeholder currently positioned in relation to your project?
    - Looking at the motivational factors listed in the theory to create engagement, what factors are missing for this stakeholder?
- How does the optimal situation look like?
    - What motivational factors are identified as the most crucial for this particular stakeholder?
- How do I act to change the situation?
    - What actions were implemented to enhance specific motivational factors?

In this study Berg's three phases will be expanded with two additional phases;

- What was the outcome of my actions?
    - Was the stakeholder more motivated?
    - What motivational factors were added?
    - How did you observe the changes?
- How does this relate to the theory collected?
    - Did you observe any motivational factors that were not described in the theory?

Reflections around each topic were written down from at least two encounters with key people with the goal of getting their support and engagement. The objective is to study what motivators were most successful when speaking to these two people whose support could be integral for your projects success.

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4 Research question: Finance

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4.1 Introduction

Budgets are used in almost all companies, however the way they are used and the purpose of the budgets may vary. How a company uses its budgets and even the budgeting process itself can have various implications for a company, not least for innovation (Marginson, Ogden, Frow 2006). It is believed that many companies restrict miss out on the opportunity in exploring and developing new innovative ideas due to incompatible processes and structures that are implemented and upheld by the companies. Budgets and the budgeting process are examples of these kinds of structures and likely affect the way the companies work with innovative initiatives. Many companies choose to shut down projects if costs exceed what was initially budgeted or if the project does not achieve its milestones or initial goals (Marginson, Ogden, Frow 2006). This is not necessarily bad policy, however, for innovative initiatives, conventional budgeting processes is likely not to be compatible with entrepreneurial or innovation processes (Marginson, Ogden, Frow 2006).

Entrepreneurial projects seldom becomes what the intended plan was from the beginning, rather entrepreneurial projects are often iterative in nature and often characterized by pivoting and major changes. In large companies projects with vague or broad specifications of what it is going to be achieved (such as radical innovation projects) may find it more difficult to gain, retain or increase a budget. This may even cause innovative initiatives not to make it through a selection process at all, contrary to more incremental projects with lower but more predictable return.

On the bright side, there is a growing trend towards improving budgeting to fit the more flexible reality of today. When entire industries are changing rapidly and as innovation plays a more central role in corporate strategies, companies are increasingly realizing that traditional budgeting is no longer applicable (Groot 2007). In fact, companies are even abandoning budgeting entirely due to the incompatibility with the company's aims and goals.

As a corporate entrepreneur, understanding how budgeting works and what role it plays in large companies is crucial to navigate successfully in a corporate environment. Additionally, having an understanding of what alternatives that exist in terms of budgeting processes or financial valuation models, and particularly alternatives that foster innovation and entrepreneurship, can be differentiating asset for the corporate entrepreneur.

4.1.1 Purpose

The purpose of this study is to investigate what impact budgeting and the budgeting process has on innovation and entrepreneurial projects. The intent is to shed a light on what innovation road blockers that could be created by budgeting, but also how the budgeting process can be carried out without hindering creative work.

4.1.2 Research Question

How do companies deal with entrepreneurial initiatives within the budget process and what effects does it have?

4.1.3 Delimitation

This study will not give an exhaustive, quantitatively based description on how companies in general deal with budgeting of entrepreneurial projects. Rather, the basis for this study will be one specific company, only. The reason for this is that this study will be part of a separate comparative study on four companies, where this study is one of them. Thus, the findings and the discussions will describe what implications the budgeting process has on this particular company, solely.

4.2 Literature Review

4.2.1 The Budget process

The budgeting process can be described as the activity of forecasting and planning for future income and expenditures. It is also the process of allocating the capital needed for reaching these projections. The budgeting process can be very different between companies and organizations depending on for example number of employees and the purpose and aim of the different budgets. Ax and Johnson (2002) divides the budgeting process into four phases; setting the budget, using the budget, budget follow-up and budget analysis.

Setting the budget: Setting the budget is often a challenging activity and at the same time a critical function within the company. It is subject to different and often conflicting goals and often spans over multiple departments, locations, and projects, who have to agree on how to allocate the company's scarce resources. Many times budgets are set on the basis of last year's figures and do not look into the future or using market signals as basis. Also, since a budget is often used as a communication tool, it can very well convey the importance of departments or even individuals, which might make the setting of budget a personal matter within and between entities in the organization. Ax and Johnson describes three types of budget-setting methods; Top-down budgeting, which is a method where a central entity sets an

overall budget for the whole organization and is then broken down and allocated down to separate divisions. Bottom-up budgeting, which is when all entities set their own budgets and are then build up to form an overall corporate budget. And lastly the iterative budgeting method, which is a combination of the two previous and often the one that is most frequently used.

Using the budget: Can mean different things depending on size and structure of the company. Some use it for control and other as means of communication. Using the budget is not a separate step in itself, rather an activity that is performed throughout the whole budgeting process.

Budget follow-up: Comparing what actually happened to what was planned is a central part of the process and is done for various reasons and again, this varies between companies. For example, one can use the follow-up as a base for setting new budgets, as a way of claiming responsibility for deviations, as a base for discussion and information dissemination and even as a base for incentive systems.

Budget analysis: To follow up a budget is not enough to complete a budgeting process. There is also a need to analyse the comparison to the outcome and the planning to be able to do redo the budgeting process successfully. Budgets can be analysed from period to period, often annually, which is the most common way, but can also be done for example continuously through a rolling budget analysis.

4.2.2 The Impact of Budgeting on Innovation

Studies on the impact of tight cost control on innovation have shown that there is an element of incompatibility between the two (Bisbe and Otley, 2004). It is argued that management controls systems, such as budgeting, often deteriorate creativity and the fostering of innovation. Shields and Young (1994) claims that scientists and engineers involved in innovation or new product innovation should not be pressured by cost concerns. The reason for this, according to Kerssens-van Drongelen (2004), is that the process of innovation is iterative and unstructured in its nature, hence very hard to control.

In a study conducted by Alan Dunk (2009), the conclusion was drawn that the way in which budgets are used has an impact on product innovation. If the budget is used as merely a planning tool, the impact on innovation is positive and has a positive impact on the financial performance of the firm. Contrary, if budgets are used as a control tool, the impact on product innovation is negative and the impact on the financial performance of the firm is often negative. This is consistent with previous studies on the topic of budgeting and innovation (Dunk 2004)

At the "Better Budgeting" forum in London (2004), a number of reasons for the seemingly negative impact of budgeting was brought up, these include:

- Budgets often focus on cost reduction and not value creation

- Budgets encourage 'gaming' and pervasive behaviours
- Budgets are often based on unsupported assumptions and guess-work
- Budgets reinforce departmental barriers rather than encourage sharing
- Budgets are updated too infrequently

4.3 Method

The research will hold an inductive approach. An inductive methodology is preferably combined with a qualitative methodology. A qualitative methodology is an interpreting research approach where the analysis is conducted on relatively open facts (Wallén, 2011). In this research, data collection will be of rather subjective data, which also contributes to the choice of a qualitative approach (Wallén, 2011).

4.3.1 Case Study

The research approach chosen for this study will be a case study. Yin (2009) defines a case study as an empirical investigation probing a phenomenon from its real-life context. Case study research can imply both single and several case studies; in this study the research will be conducted on one case. It is the researcher's role to find the most suitable and relevant person at the specific company who in the best possible way responds to the intended questions that will work as a basis for the data collection.

4.3.2 Data collection

In the data collection phase it is considered crucial to adapt to the different contexts the researchers encounter. The questions that will lie as the basis for the data collection will be of similar kind for all four case studies (of which this study is one of them). This is to secure a somewhat comparable data between the organizations in order to secure an analysable case study.

The data collection is a continuous process where the researcher gathers information over a period of one year, while actively participating in a development project at the company. This data could be gathered by actively partaking in the budgeting process, conducting interviews, and by studying budget documents.

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