

**Researching Corporate Entrepreneurship:
Theory and Methods for the Corporate
Entrepreneurship track at Chalmers School of
Entrepreneurship 2015-2016**

by

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Preface

Chalmers School of Entrepreneurship has a two-year master's programme called Entrepreneurship and Business Design. One of the branches within this programme emphasizes Corporate Entrepreneurship.

During the final year of the programme, the students of the Corporate Entrepreneurship track were divided into five teams of two students per team. Each team was connected with a large established firm and put in the driver's seat for an innovative and entrepreneurial project. While working with the projects, the students also gathered data regarding corporate entrepreneurship in order to create learnings for their master thesis and to contribute with knowledge to the field of research.

Four areas of interest were investigated from a corporate entrepreneurship perspective:

- *Entrepreneurial strategy*
- *Organizations that change*
- *Entrepreneurial sales*
- *Managing finance*

This working paper describes each of the four areas with a research question, a corresponding theoretical framework of references and a proposed method.

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1 Entrepreneurial strategy

Nathalie Andersson, Elisabeth Bergman, Johanna Gustin

1.1 Introduction

Strategies are capturing where firms are heading and the scope of the organization in a long-term perspective. It helps the organization achieve competitive advantage through managing the resources and competencies with the goal to fulfill the stakeholders' expectations (Johnson, 2010). In order to improve the likelihood of success for innovation projects, a thorough strategy is needed. The projects should utilize the resources and competencies of the organization and be aligned with the strategic intent, which is the long term, ambitious goal of the organization (Schilling, 2005). To be able to understand the strategic position of an organization and what gives the organization a competitive edge, one needs to understand the activities performed within *the value chain* of the organization (Johnson, 2010). In order to implement change, one also has to understand the complexity of an organization and identify the internal factors that might influence the organization's ability to change (McKinsey.com, 2008).

1.1.1 Purpose

The purpose of this research is to improve the understanding of how radical innovation can affect the strategies and activities performed within organizations as well as between organizations. The intent is to identify what challenges arise in intrapreneurial projects as well as ways to design activities to successfully run such projects.

1.1.2 Research question

When implementing radical innovations into an existing organization, 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 five projects and the five companies where the projects are run. The mapping of activities will be done during a period of eight months.

1.2 Literature review

1.2.1 The value chain

In order to achieve competitive advantage and creating value for customers, it is important to understand which activities are important in value creation and which are not (Johnson, 2010). Porter (1985) developed a famous value chain model (*appendix 1A*), mapping out the different categories of activities performed within an organization. The value chain consists of primary activities and support activities. Primary activities are directly related to the creation or delivery of the product or service. In this category, activities such as logistics, operations and marketing can be found. Support activities, on the other hand, help to improve the effectiveness or efficiency of primary activities. Examples of this are procurement, technology development and HR issues.

1.2.2 Activity mapping

Activity mapping is a tool that is used to identify an organization's competitive advantage, which identifies an organization's activities, traditionally represented through an activity-systems map (*see example in appendix 1A*), and the different types of fit among the activities. A strong fit between activities creates a strong system that locks competitors intending to imitate out, as tight interlocking activities would have to be copied in their entirety. (Porter, 1996) There are three types of fit that can lock the activities together:

- Simple consistency: The first order fit simply states a consistency between activities and the overall strategy of an organization. It fits activities together in such ways that they don't cancel the competitive advantages of other activities, but rather accumulate them.
- Activities are reinforcing: The second order fit is when activities reinforce each other rather than just have a consistency with each other and the overall strategy.
- Optimization effort: The third order fit optimizes the effort of the activities, for example through coordination and exchanges across the different activities to minimize redundancy.

No matter which type of fit the activities have, the whole is considered more important than the part. The fit in activity systems means that the system is as strong as its strongest link but also that poor performance in one activity will be exposed as it will affect the performances of the other activities in its activity system.

1.2.3 McKinsey 7S framework

In the late 1970s, the consultancy firm McKinsey & Company developed the McKinsey 7S Framework (*figure 1*), to be used when analyzing organizations effectiveness and ability to change (McKinsey.com, 2008). The framework highlights the importance and interrelation between seven essential organizational factors; *strategy*, *systems*, *structure*, *skills*, *staff*, *style* and *shared values*. These can be categorized into soft and hard factors (Peters & Waterman, 1982).

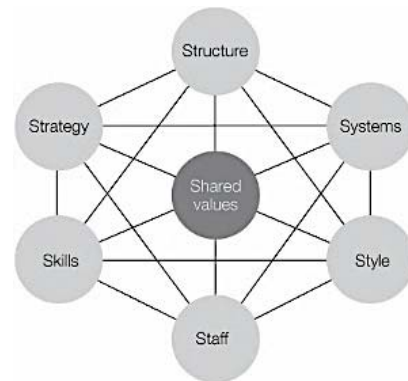


Figure 1: McKinsey 7S Model

Strategy, *structure* and *systems* are according to Kale (2014) considered to be hard factors that are easier to identify and influence in comparison to the soft factors. *Skills*, *staff*, *style* and *shared values* are influenced by culture and create an organizational foundation of great importance when creating a sustainable competitive advantage.

- *Strategy* is explained by Kale (2014) as a plan, designed to direct the organization in a certain way. Explaining how to adapt to the environment and how to maintain and create competitive advantage by using its full organizational potential.
- *Structure* is described as how the organizations should define roles and formal responsibilities in regard to the strategy (Kale, 2014).
- *Systems* are daily activities, processes and procedures of the organization that support people to perform and determine how business is done (Kale, 2014).
- *Staff* concerns how the people of the organization will be recruited, developed, socialized and motivated to change (Johnson, Scholes, & Whittington, 2011).
- *Skills* are the capabilities in general that are required to support that change (Johnson, Scholes, & Whittington, 2011).
- *Style* is referred to as how the company is managed and which leadership style that is adopted (Kale, 2014).
- *Shared values* are perceived as the core factor of the framework including core values of the organization, the culture and the work ethic (Kale, 2014). It is also described as the purpose of the organization based on their mission, vision and purpose (Johnson, Scholes & Whittington, 2011).

According to Peters & Waterman (1982) it is important to note that due to the interdependency, one or two of the factors can't be changed without affecting the others, thus changing the entire organization. The factors must therefore be given equal importance to achieve the best results of performance, effectiveness and competitive advantage.

1.3 Methodology

By using a combination of activity mapping and the McKinsey 7S Framework, a detailed view on important factors in the different activities can be identified. This can bring a deeper understanding on which activities are challenging or can be challenging and which factors are important to improve in order to overcome those challenges.

The figure below shows a five-step process on how to perform the analysis.



1. Map out the activities performed within areas that are similar, within the same area or otherwise relevant to the project that already exist within the organization. This could be done by interviewing key persons within the organization. Visualize it by creating an activity system map, showing relations between the activities. See *appendix 1A* for an example of an activity system map.
2. Map out the activities performed, or intended to be performed, within the value chain of the project, tentatively by keeping a weekly diary. Visualize it by creating an activity system map, showing relations between the activities.
3. Analyze what level of fit the activities have, both the activities of the organization and the activities of the project. Identify activities and linkages that differ between the project and the company.
4. Choose up to three especially challenging activities, or significant differences between the organization and the project, and apply the 7s model by identifying factors not aligned that might cause the challenge. This could be done by using the checklist in *appendix 1B*.
5. Suggest strategies of how to change the factors to overcome the challenges.

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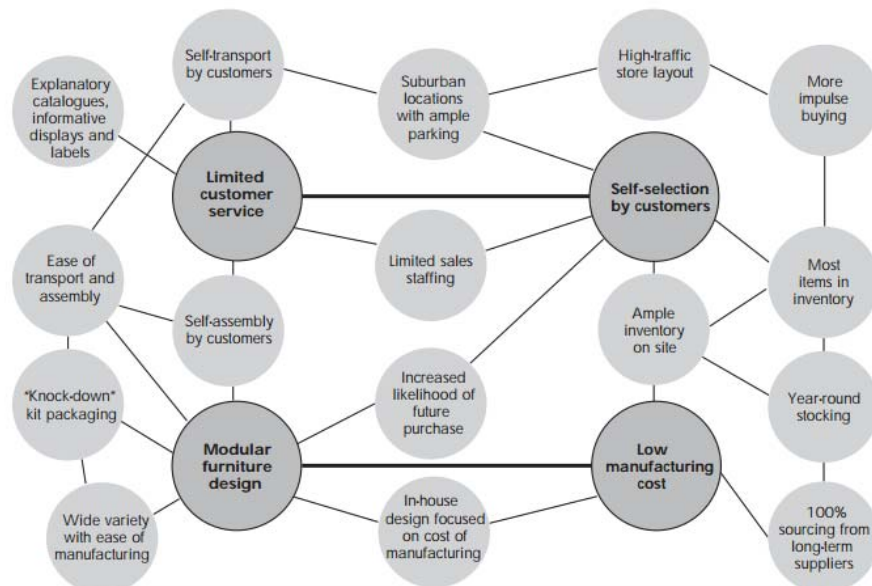
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1.5 Appendices

Appendix 1A: Figures



Porter's Value Chain Model (Porter, 1985)



IKEA Activity Map, Porter (1996)

Appendix 1B: Mind Tools 7-S Checklist Questions

Mind Tools has created a checklist of questions based on the factors, to be used when gathering information. The checklist can be extended with supplemental questions depending project.

Strategy:

- What is our strategy?
- How do we intend to achieve our objectives?
- How do we deal with competitive pressure?
- How are changes in customer demands dealt with?
- How is strategy adjusted for environmental issues?

Structure:

- How is the company/team divided?
- What is the hierarchy?
- How do the various departments coordinate activities?
- How do the team members organize and align themselves?
- Is decision making and controlling centralized or decentralized? Is this as it should be, given what we're doing?
- Where are the lines of communication? Explicit and implicit?

Systems:

- What are the main systems that run the organization? Consider financial and HR systems as well as communications and document storage.
- Where are the controls and how are they monitored and evaluated?
- What internal rules and processes does the team use to keep on track?

Shared Values:

- What are the core values?
- What is the corporate/team culture?
- How strong are the values?
- What are the fundamental values that the company/team was built on?

Style:

- How participative is the management/leadership style?
- How effective is that leadership?
- Do employees/team members tend to be competitive or cooperative?
- Are there real teams functioning within the organization or are they just nominal groups?

Staff:

- What positions or specializations are represented within the team?
- What positions need to be filled?
- Are there gaps in required competencies?

Skills:

- What are the strongest skills represented within the company/team?
- Are there any skills gaps?
- What is the company/team known for doing well?
- Do the current employees/team members have the ability to do the job?
- How are skills monitored and assessed?

2 Organizations that change

Carl Billton, Andreas König

2.1 Introduction

The formal organization is a set of rules, procedures and structures that dictates what a company does and how it does it. It facilitates the accomplishment of goals, coordination of activities, establish authority relationships, and permits division of labor. The formal elements of an organization are subject to social structures created through the interaction, and based on the personal values, interests, desires and behaviors of individual workers. These social structures form the informal organization, which constantly evolves and has an interdependent relationship with the formal organization. “Culture eats strategy for lunch” is a quote credited to Peter Drucker and made famous by Mark Shields of Ford Motor Company that illustrates that the environment is critical in the implementation of a strategy. Traditionally, strategic management implied finding successful product-market combinations. By dealing with company problems and conducting research on strategy, it has been understood that there is a need for Strategic Fit; situation where formal and informal elements of an organization are in line with each other (Scholz, 1987; Camillus & Venkataraman, 1984; Galbraith, 2015).

As per the definitions of the formal and the informal organization, the formal organization is something that can be dictated by the decision-makers of a firm while the informal organization is a more fluid, evolving and undefined structure that influences and is influenced by any other element (Gulati & Pranam, 2009). If the need for Strategic Fit exists, this implies that even if the informal organization can be influenced by decision-makers, it will not (due to the nature of the informal organization) be possible to force the informal organization to adopt the values set out by the formal organization, and due to the nature of the market, the formal organization should rarely adapt entirely to the informal organization. It is in this scenario that a company’s core purpose and culture need to coexist.

2.1.1 Research question

How do the organization's core purpose and culture relate to the entrepreneurial ability?

2.1.2 Purpose

To understand how the chosen organization's core purpose and culture relates to its strengths and weaknesses in entrepreneurial ability.

2.1.3 Limitations

What is meant by the term “organization” should be decided upon individually by each project team as the group of people to be studied may vary. Furthermore, the study does not ascribe any positive, or negative, value to “entrepreneurial ability”, which we here refers to the ability of an organization to perform innovative tasks (not operative tasks).

2.2 Literature Review

The core purpose is a part of a company’s core ideology and defines the reason for why the company exists (Collins & Porras, 1996). It is a formal element of an organization that can be viewed as the impetus to meaningful action, and is part of what get’s an organization moving towards its goals (Baldoni, 2011).

Culture is the result of a learning process (Schein, 1984). Through interaction with each other and the environment, humans develop values, behaviors, symbolism, and more, that form culture. Although aspects of culture, such as smiling, are universal (Kroeber & Kluckhohn, 1952), organizations tend to differ culturally because they have had different learning experiences. The definition of organizational culture that will be used in this study is “the values, customs, rituals, and norms shared by all the members of an organization, which have to be learnt and accepted by new members of the organization” (Law, 2014).

When people see or attribute meaning in or to their actions, their level of motivation is affected (Dweck & Molden, 2000). If a given purpose does not align with the values of a person, that purpose may not provide valuable meaning for that person. For example, “To solve unsolved problems innovatively” is the core purpose of the company 3M. If an employee of 3M has strongly conservative values, that person might be of the opinion that problems should be solved in a traditional way. For such a person, 3M’s core purpose may not provide much valuable meaning to their actions at work. Values are a part of a person’s identity, and as emphasized by Sveningsson & Alvesson (2003), identity is critical to meaning. Just like a person, a culture can adopt and foster certain values, and just like a person’s values can align or not with a company’s core purpose, so can the values of a culture. As a result, while core purpose can provide meaning to actions, the magnitude of that meaning is determined by whether or not it aligns with the culture.

In summarizing empirical evidence about entrepreneurial values, Cromie (2000) finds seven distinguishing characteristics between entrepreneurs and non-entrepreneurs. Cromie lists the following characteristics:

1. *Need for achievement* - The need to excel. People who have this characteristic tend to avoid both low-risk and high-risk situations in the favor of mid-risk

situations. They need regular feedback in order to monitor progress and prefer working with other high achievers (NetMBA, 2002)

2. *Locus of control* - The extent to which an individual feels in charge (Beugelsdijk, 2007). Entrepreneurs feel that they are not controlled by the environment, third parties, luck or fate, and feel that their actions influence their surroundings.
3. *Risk taking* - Entrepreneurs are generally considered more likely to take risks than other people, but still on a moderate level.
4. *Creativity* - Entrepreneurs spot market opportunities and create new combinations of available means to create value.
5. *Autonomy* - Need and will to be self-governed in pursuing opportunities
6. *Tolerance for ambiguity* - Entrepreneurs need to be able to commit to a course of action while remaining open to new information and making mid-course corrections that mitigates risk.
7. *Self-confidence* - Confidence in oneself and in one's powers and abilities (Encyclopædia Britannica, Inc., n.d)

In an organizations were these values are nurtured, the chance of success of entrepreneurial undertakings will increase. Furthermore, Uhlaner & Thurik (2007) express the view that if more people in an organization exhibit entrepreneurial values, the entrepreneurial ability of organizations will improve. Determining whether these values are present and appreciated in an organization will help understanding its entrepreneurial ability. If the core purpose aligns with these values, then that purpose will be contributing further to entrepreneurial ability.

2.3 Methodology

There are generally two approaches in collecting empirical data; quantitative and qualitative. A quantitative approach is primarily utilized for generating numerical data, often based on bigger populations, whilst a qualitative procedure allows a researcher to reveal patterns in opinions and perceptions. In order to gain a deeper understanding of how culture and core purpose does relates to entrepreneurial ability in a corporate setting, this study employs a qualitative approach.

There are two methods for answering the purpose; either a deductive method where one sets up a hypothesis which is to be answered through the findings of relevant theory and empirical research. Another method is inductive, meaning that the researcher applies a deepened analysis often based on individual case studies. As this research is mainly going to focus on one specific company, an inductive approach is pursued.

2.3.1 Research design

The research design defines the type of a study. It sets the structure for how empirical data is to be collected in order to answer the purpose in the most accurate way possible. This study is limited to focus on the cultural expression in one isolated corporation thus it is recommended to utilize a qualitative case study- approach. A case study is an in-depth examination of a certain subject over a limited amount of time. The method is ideal for investigating the nature of a subject whilst being whilst being a part of it. The researcher must however be cautious due to the impact he/she might have on the environment being subject for the study. There are two ways of approaching that problem. Either the researcher tries to stay as neutral as possible in order to minimize the impact on the research. Another option would be to be transparent and weigh the fact that one potentially does affect the environment being studied.

2.3.2 Collection of data

At first, the core purpose of the company (according to top management) needs to be determined. This will be done by researching relevant company documents and through conversations with relevant management individuals.

In order to gain a picture of how the organization's core purpose and culture relate to the entrepreneurial ability the study will consist of carrying out interviews with people as it gives room for interaction between the researcher and the recipient (Esaiasson et.al. 2007 s. 283). In addition to that own continuous observations are to be performed as well. The research is supposed to entail interviews with five different employees in the company of which three are to be on management-level and two who are working operationally. The interviews are to be semi-structured and

to follow interview guidelines listed in *appendix 2A*. After each of the interviews the interviewee will be handed a form containing seven scales on which they will be required to rate how well the seven entrepreneurial values apply in their organization according to themselves. The interviewer should also fill in one of these forms based on the answers that the interviewee gave during the interview. This should be done before looking at the interviewees responses to the questionnaire, and is intended to help the comparison between interviewers understanding of interviewee answers during the interview and the answers received through the questionnaire.

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2.5 Appendices

Appendix 2A: Interview guide

Ensure interviewee that all their answers will remain anonymous. Don't explain to the interviewee the nature of the interview in the beginning - don't tell them about the seven values before the questionnaire has been filled in.

1) ABOUT THE INTERVIEWEE

For how long have you worked at this company?

What departments have you worked at?

At what department do you work now?

What is your title?

What are your responsibilities?

2) CORPORATE CULTURE AND CORE PURPOSE

How would you describe the culture in your corporation?

What/who are the most important culture carriers in the organisation?

What would you say the core purpose of your organisation is?

3) PROBING FOR THE EXISTENCE OF ENTREPRENEURIAL VALUES

Need for achievement

How do you receive feedback on your work from your superiors?

With what frequency do you seek feedback on your work from superior(s)?

On a scale from 1 to 7, how happy are you with feedback that you receive from superior(s)?

With what frequency do you seek feedback on your work from colleagues?

How strong is your need for achievement, need for affiliation and need for power, relative each other? (In other words, rate them)

Locus of control

To what extent do you feel that your actions can affect your responsibilities at the company?

To what extent do you feel that third parties can affect your responsibilities at the company?

Does luck play any part in your work?

Risk taking

Have you experienced the introduction of radical change or the undertaking of innovative projects with perceived high risk?

How was this project received by staff?

What was the outcome of the project?

What was the general attitude once the result was known?

How do you respond to high risk situations?

Creativity

Do you have any say in how you divide your working hours?

How much of your time do you spend on operative tasks?

Do you feel that the company is a place in which you can express ideas?

Have you ever expressed an idea that could impact company operations in any way?

What happened?

Autonomy

Who, if anybody, ensures that you complete your tasks on time?

How much freedom do you have in deciding how you deal with your responsibilities?

Would you like to see this freedom increased or are you happy with the current situation?

Tolerance for ambiguity

Do you still keep looking for new information relevant to the plan of action for a project/task once the plan has been decided on?

How willing are you and your department to change direction in a project/task when new information arises?

Do you prefer working with clear or loose directives?

Self-confidence

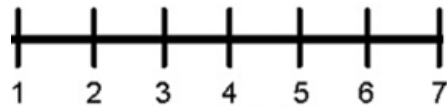
How do you respond to critique on your performance?

How do you respond if in a certain task, you don't meet your expected goals?

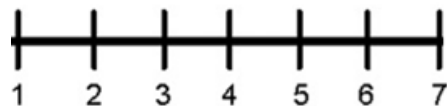
Appendix 2B: Questionnaire

These are a series of questions intended to be based solely on the opinion, thoughts and feelings of the interviewee and are to be filled in after the interview is over. Consider the following statements. To what extent do you agree that they apply to people at your workplace? 1 is very little and 7 is very much. Please circle the number that best describes your opinion.

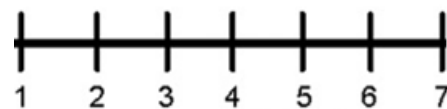
- 1) Need for achievement is the dominating need in the company.



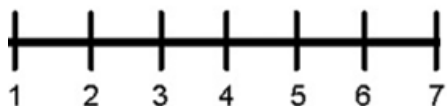
- 2) People at the company feel that they can influence their surroundings.



- 3) People are prone to take risks



- 4) People are good at spotting new market opportunities, creating new value for customers, or finding new ways of working.



- 5) People want to be self-governed



- 6) People are good at tolerating and dealing with ambiguity



- 7) People have good self-confidence



3 Entrepreneurial sales

Anna Andersson, Louise Fransson

3.1 Introduction

When an idea is just an idea in one person's head, before it has forgone the process to become a product, service or established form of a company's business it is dependent on people that believe in it and can guide it through the process to completion. This section focuses on the people that in an early stage of an idea take the time and engagement to develop and spread the message further, internally or externally, for the idea to grow into realization and ultimately make the company money. Our study will focus on finding factors that enable obtaining ambassadors and to motivate them to stay engaged in order to take on and sell a new innovation.

3.1.1 Purpose

Every person with an idea or innovation within an organization will at some point need help from other people to spread the word and sell their innovation. These people need to see the potential in the idea and take time from their already existing work to work hard with developing and spreading the idea. The purpose of the study is to understand how one should go about to obtain these people that will want to prioritize the idea and how to keep them motivated to sell the invention, internally and externally.

3.1.2 Research question

How do corporate entrepreneurs obtain ambassadors that will help them sell and develop their innovation?

3.1.3 Key terms

Ambassadors - individuals who help to spread and develop an idea, even if it is internal or external.

3.2 Literature review

People who will help you develop or spread your idea of innovation internally or externally could be called ambassadors. To obtain ambassadors could be the most important factor for convincing the top segment of the organization about the greatness of your idea. According to Kotter and Whitehead (2010) it's important to clarify the value proposition of your idea or initiative, to know the purpose, what do you want to accomplish and what kind of benefits the idea will provide the organization.

3.2.1 Collect information

Kotter and Whitehead (2010) mentions seven points that you should prioritize to gather the information needed to support your idea when finding ambassadors. These points could be summarized into;

- Find out what goals your organization and boss have and how your idea could help achieving these.
- Address the fears and concerns of the organization.
- Adjust your language to the person you are talking to.
- Communicate success stories, what has worked in other organizations.
- Induce the concerns of failing if not working with innovations.
- Re-frame challenges as opportunities to create inspiration.
- Explain the importance of creativity and how your organization could make it work

3.2.2 Find the right people in the organization

To be able to sell your idea you need to understand the impact that the idea will have on the organization, furthermore you need to understand how to penetrate the right segment of the organization to get people on board for the process of innovation. Rackham (1989) talks about how new ideas, disruptive innovation, that isn't supported by a purchasing channel need sponsors on the inside for the sell to be effective towards the rest of the organization. In a corporate organization this can be translated to that an idea needs ambassadors that will help you sell your idea. A factor that influences the impact that your idea will have on finding ambassadors are understanding who you are talking to. Rackham (1989) points out that there are three different types of individuals that you have to take into consideration when you are selling your idea, receptive individuals, dissatisfied individuals, and individuals of power and decision- making. The easiest way to find who you are supposed to talk to is to first find the receptive individuals within the part of the organization that you want to penetrate with you idea. These are the individuals that want to listen to what

you have to offer and through them you can find the individual who are dissatisfied and that have a problem that your idea can solve. Pink (2013) states that when meeting potential ambassadors, try to uncover challenges that they themselves are not aware of, to create openness and understanding. Through this you can reach individuals that are willing to work hard with your idea and sell it further in the organization. Rackham (1989) also mentions that these three types of individuals can all exist within one person, and if you are lucky you can reach an ambassador and a sell in one contact.

According to Rock (2008), important to think about when approaching different types of individuals is to adjust your language to each occasion and person, an example of a model to use regarding this issue is the SCARF model, see *appendix 3B*. Re-framing challenges as opportunities to create inspiration for further involvement and explaining the importance of creativity and how your organization could make it work are strategies that is worth having in mind.

3.2.3 Motivate for engagement

In order to get ambassadors on board with the idea and sell the idea further in the organization they need to be motivated. In the book “Innovation – the five disciplines for creating what customers want” written by Carlson and Wilmot (2006), Motivation Mantra is mentioned. This mantra describes three needs for motivation that Carlson and Wilmot means must be fulfilled for an organization to create motivation to sell an idea. The mantra points out Achievement, Empowerment and Involvement as the three needs for motivation. At first, people in an organization must feel a sense of personal achievement and having the possibility to make a meaningful impact when committing to innovation. Next comes empowerment, people need to feel that they get the flexibility and trust to accomplish a task without being micromanaged. This type of management could be a hinder for creativity and innovation in an organization. The third and last point described by Carlson and Wilmot (2006) is involvement. A manager needs to include all members in an innovation team and making everyone part of decision making processes. Without involvement, members will feel insecure in contributing and sharing ideas, which eventually will cause lack of engagement in the team.

Furthermore, according to, Coulaux and Jobber (1989) and Kiely (1988) the most important factors for creating engagement and motivation for selling an idea is; to know what is expected and have material to carry it out, receiving acknowledgement when making an effort, involvement and contribution in ideas and seeing the bigger purpose of the idea. By fulfilling this the employees will help the organization to perform better.

3.3 Methodology

One of few research models that really encourage involvement, reflection and participation is presented in *Qualitative research methods for the social sciences* written by Berg (2009) and is called Action research. The model could be defined as a collective self-reflective analysis conducted with a group of people with the aim to improve the surrounding condition that they all are involved in. According to Schein (1987), the Action research method is based on the fact that one person cannot change a human system without personally taking part in the transformation. The Action research method is described in three phases by Berg (2009); observe to create an understanding of what is happening, reflecting over what is observed and improving the situation by taking action.

Based on our research question we will conduct an action based study at the companies with the purpose of trying to affect potential internal and external ambassadors to develop and spread an innovative idea further. During the process, iterate upon the following questions to reflect upon what the individual needs to be motivated to engage in your idea:

- Looking at the motivational factors listed in the theory to create engagement, what factors are missing for this individual to engage in your project?
- What motivational factors are the most important to engage the defined individual?
- How can the idea or process be modified to fit the individual?
- Are they motivated by extrinsic (ex. money) or intrinsic (ex. responsibility) motivators?

To gather information and evaluate how the sales process differs at the different companies involved, a survey will be conducted based on a one-pager with suggested methods, see *appendix 3C*. During the time at the companies the methods are to be tested and evaluated and will later be pivoted for best result. Feedback is given through the app LoopMe by commenting on how the chosen method worked at the company.

3.4 References

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3.5 Appendices

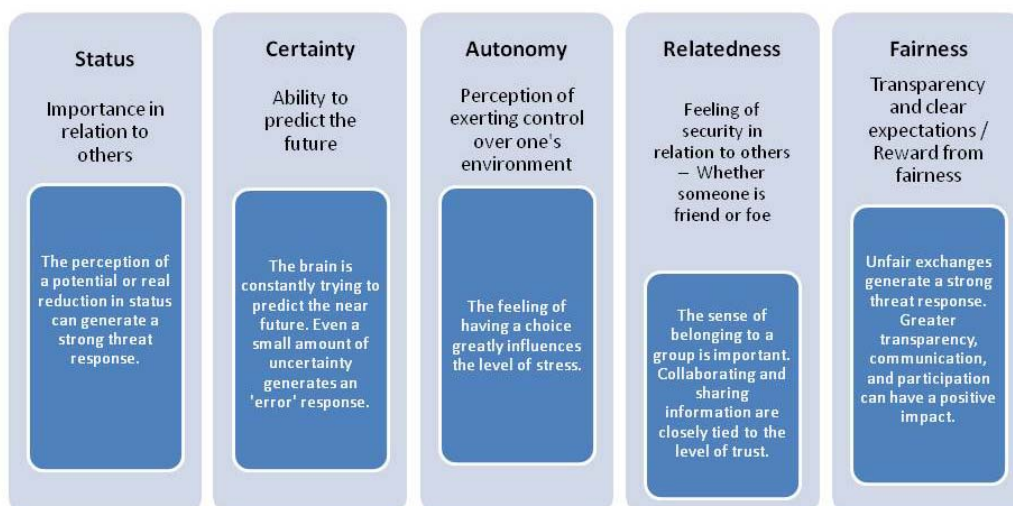
Appendix 3A: World Café

Carlson and Wilmot (2006) means that people in an innovation team needs to be involved and feeling welcome to contribute. In the book *Bringing Your Strategic Plan To Life*, Paris (2011) describes a technique to obtain, engage and involve people in strategic processes called *World Café*. The technique builds on four principles; Relevance, open-mindedness, acceptance and respect and is conducted in three steps;

1. **Set up a room** like a café with tables covered in paper and three belonging chairs to every table. The responses and thoughts on the first question should be written on the paper. The participants have 15-30 minutes to discuss their responses.
2. **Ask one person to remain seated** by each table, functioning as a host. The two other persons change positions to different tables. Spend another 15-30 minutes to discuss what the prior group wrote on the paper placed on the table.
3. **In the last round, ask participants** to summarize a list of ideas and insights, which will be presented by the table host in the end of the session.

Appendix 3B: SCARF model

SCARF – A MODEL FOR COLLABORATING WITH AND INFLUENCING OTHERS



(Brio Conseils, 2015)

Appendix 3C: One-pager

| Phase | Theory/met hod | Recommendation | References |
|---|-----------------------------------|--|--|
| Collect information | Goals of organisation and boss | Find out what goals your organisation and boss have and how your idea could help achieving these. Find out how the culture and structure of the organisation is built. | Kotter and Whitehead (2010) |
| | Success stories | Research success stories, what has worked in other organisations to communicate. | Kotter and Whitehead (2010) |
| Find ambassador | One-on-one dialogue | Plan one on one dialogues, also talk spontaneously over coffee/lunch. | |
| | Network | Use internal network to inform other people in the organisation about your idea and of how to contact you for further involvement. Use LinkedIn to find and make contact with external people of interest. | |
| | Alternative form of communication | Use alternative forms of communication (record a video to spread information etc.). | |
| | SCARF | Involves five domains of human social experience: Status, Certainty, Autonomy, Relatedness and Fairness, appendix 3B. | Rock (2008) |
| Involvement of ambassador Carlson and Wilmot (2006) | World Café | A technique to obtain, engage and involve people in strategic processes called World Café. The technique builds on four principles; Relevance, open-mindedness, acceptance and respect and is conducted in three steps, appendix 3A. | A Magic Way to Involve People (2012) |
| | Fears and concerns | Find out how the fears and concerns of the organisation relates to the individual's position in relation to the organisation. | Kotter and Whitehead (2010) |
| | Project status info | Inform about the status of the project and opportunities/hinders/changes that the project encounters. | Coulaux and Jobber (1989), Kiely (1988) |
| | Interest investigation | Investigate the interests of the individual. | Coulaux and Jobber (1989), Kiely (1988) |
| Empowerment of ambassador Carlson and Wilmot (2006) | Task assigning | Assign individuals specific tasks according to skills and interest. | Coulaux and Jobber (1989) and Kiely (1988) |
| | Appreciation | Show appreciation for the role of the individual - every role is important. Use open communication where you listen to complains as well as new ideas. | Coulaux and Jobber (1989) and Kiely (1988) |
| Achievement of ambassador Carlson and Wilmot (2006) | Acknowledgement | Show acknowledgement in the results. | Coulaux and Jobber (1989) and Kiely (1988) |
| | Follow-up | Follow up of previous tasks and ideas. | Coulaux and Jobber (1989), Kiely (1988) |

4 Managing finance

Fredric Ghatan, Olli Remes, Andrea Stråberg

4.1 Introduction

In 1991, Shaker Zahra stated that corporate entrepreneurship leads to market innovation through product and process innovation. Therefore, having an entrepreneurial culture in an organization could bring several advantages, such as improvement in diversity of products and services which in its turn could help the organization to expand and grow. It is widely believed that through taking on entrepreneurial initiatives in an organization, the workforce is developed to help maintain the company's competitiveness and promote a climate that encourages high achievement (Kuratko and Hodgetts, 1995). A consequence of taking on entrepreneurial initiatives in a firm is believed to be that the firm in question is first in offering new products and services rather than respond to the competition. Corporate entrepreneurship is therefore many times closely linked with high levels of proactivity and it is hard for firms to choose which initiatives to proceed with when there are no or very limited examples to follow (Miller and Friesen, 1982; Covin and Slevin, 1991; Zahra, 1994; Barrett, 1996). This report will outline the importance of using financial and non-financial criteria to evaluate these entrepreneurial initiatives and give examples of some of the most practiced models and aspects that according to literature are used to minimize risk, enhance strategic alignment and calculate potential investment return (Benaija and Kjiri, 2014).

4.1.1 Purpose

The purpose of this report is to identify which criteria organizations use to evaluate entrepreneurial initiatives and further propose a method to validate the findings in a case study format.

4.1.2 Research question

Which entrepreneurial initiatives do the organization execute and why?

4.1.3 Delimitation

The literature review in this report will give an overview of the most common aspects for evaluating entrepreneurial initiatives within organizations and will not function as a complete exhaustive list with distinctions for the various geographical or contextual differences. The research result and discussion will be based on five entrepreneurial initiatives within a limited context why the results will not be generalizable and the method limited to a case study format.

4.2 Literature review

A vast majority of the world's corporations are today measured on their ability to create growth and generate profit. An important part in accomplishing this is to have well functioning processes for budgeting and tools to evaluate early stage ventures and initiatives. A common view is that companies need these kind of formalized and interactive evaluation processes to combine their development work with strategic business goals (Martinsuo et al 2011). According to a study performed by Cooper (1994), effective screening in New Product Development (NPD) strongly correlated to project success. Since managers in the study identified the evaluation and prioritization of projects in early stage innovation to be one of the most challenging, it is of great importance that both financial and non-financial methods are understood and outlined to facilitate the process.

One important set of evaluation criteria when prioritizing initiatives is economic justification, which is why using numeric measures for simple and effective comparison, ranking, and selection is common. The usefulness of this numeric data is, however, dependent on the assumption that the decision parameters, such as cash flow, risk and market factors can actually be quantified and predicted for a full project life cycle. The more uncertain and rapidly changing the project environment is, the more questionable the accuracy of the estimation becomes (Schilling. M., 2013, p.131). There are thus three considerations that should be kept in mind when performing financial analysis of entrepreneurial initiatives; the problem of uncertainty, the problem of specificity and the fact that the financial analysis is merely as good as the assumptions that are used for the analysis (Johnson, et al., 2011, p. 375). More and more organizations have recognized that, while analytical methods provide a solid set of tools for project evaluation and selection, they also ignore apparent complexities caused by the business environment, organizational systems and processes surrounding the project. Therefore managerial judgement, stakeholder experiences and evaluation of uncertainty have been recognized as important measures that complement the traditional analytical methods. (Thamhain, 2014). Many companies therefore develop their own project evaluation and selection models, including both financial and non-financial methods, to determine the benefits of the specific entrepreneurial initiative (Thamhain, 2014, p.4).

4.2.1 Multi-criteria analysis

To assess qualitative criteria in a systematic and thorough way, it is useful to utilize a holistic model. An example is the multi-criteria analysis developed by Benaija and Kjiri (2014). Its purpose is to help managers to analyze a project's potential using three criteria, namely project risk, potential investment return and strategic alignment. After analyzing the project potential, the strategic value of adding the project into the company's project portfolio and the optimization of project interactions are considered. These interactions include knowledge, resources, benefits and strategic objectives within the company. See examples in appendices.

4.2.2 Project risk

To assess project risk one should consider different non-financial aspects such as technical, safety, quality and legal dimensions (Pinto, 2010), which are explained in detail in *appendix 4B*. The risk analysis can be carried out in three phases, as suggested by Mobey and Parker (2002), namely identification, estimation and evaluation. After identifying the risks a project holds, one can estimate the severity, likelihood and impact of each of them. In the final step the acceptability of each risk is evaluated and actions to improve the acceptability are generated.

4.2.3 Strategic assessment

Commonly used non-financial methods to evaluate strategic dimension, also beneficial in the multi-criteria analysis, are real options analysis, PESTEL framework, scenario planning and analysis of strategic capabilities (Johnson et.al., 2011), which are further outlined in *appendix 4E* to *appendix 4H*. In real options analysis it is considered that many projects face options to make strategic changes along the project lifetime. These options can potentially lead to value addition by terminating unfavourable outcomes (Berk and DeMarzo, 2007). The PESTEL framework categorizes the different factors affecting the project outcome into economical, social, legal, environmental, technological and political factors. Scenario planning, on the other hand, consists of forming different future scenarios enabling efficient ways of brainstorming business models for each future concept (Osterwalder, Pigneur and Clark, 2010).

4.2.4 Potential investment return

To measure investment return firms can use shareholder value analysis (SVA) (Moore, 2010). This often used tool in the evaluation process include checklists, scoring models, analytical hierarchy processes and profile models (Pinto, 2010). SVA poses the question out of a shareholder's perspective; which proposed initiatives would increase or decrease the shareholder value? The evaluation from a shareholder's point of view is determined by the ability to pay dividends in the short term and for a business to reinvest in future, i.e. enabling a future flow of dividend payments (Johnson, et al., 2011, p. 377). Below are three commonly used methods presented that calculates a project's current value, potential financial return and break even point.

Net present value

The Net Present Value represents the difference between the present value of the project's benefits and the present value of its costs (Berk and DeMarzo, 2007, p.66), see *appendix 4I*. NPV enables decision-making due to the fact that it expresses the project's financial value today.

Internal rate of return

Internal Rate of Return can be used to decide if an investment should be made by comparing the project's rate of return to the required return, set out by the decision-makers. The internal rate of return of a project is the discount rate that makes the investment value equal to zero (Schilling, 2013, p.135). See *appendix 4J* for more in-depth information.

Discounted payback period

The Discounted Payback Period, further defined in *appendix 4K*, is defined as the time required to break even on a project using discounted cash flows. The payback investment rule states that managers should only accept projects if its cash flows pay back its initial investment within a specified period of time, which is decided by the affected parties (Berk and DeMarzo, 2007, p. 214).

4.2.5 Conclusion of literature review

The above mentioned methods for potential investment return are primarily basis for accepting or rejecting a project and not for ranking and choosing projects that on paper have similar financial return. They provide financial estimations and therefore work for strategic planning and in trade-off decisions. The techniques consider the timing of investment and cash flows, and partly the time value of money and risk, but do not take into account factors such as strategic importance of investment decisions (Schilling, 2013, p.135). It is therefore highly important to consider the financial criteria together with the non-financial criteria. Which non-financial criteria to use highly dependent on the unique qualities of a project.

4.3 Method

As part of the masters program Corporate Entrepreneurship at Chalmers University of Technology and its preconditions with action-based learning the research is recommended to be performed with the inductive method case study. Case study is a suitable method as it provides rich, significant and holistic insight into contextual issues and phenomenon (Brown, 2008).

4.3.1 Data collection

It is recommended to interview key stakeholders responsible for deciding what entrepreneurial initiatives to execute regarding what criteria/framework they base their decision on and how they prioritize various input sources. The recommended interview setup is to start by mapping the general process for investments according to management. After that, one should enquire about specific entrepreneurial initiatives to investigate if there is any discrepancy between actual projects and set processes. That could be accomplished by interviewing project managers and idea owners as it could verify the findings from a bottom up perspective. Asking for documentation on the process (if available) or decision material from previous project can be a complementing source of information. It is of importance to ask regarding financial and non-financial criteria in mind as they are of equal importance. For full interview guide see *appendix 4L*.

4.4 References

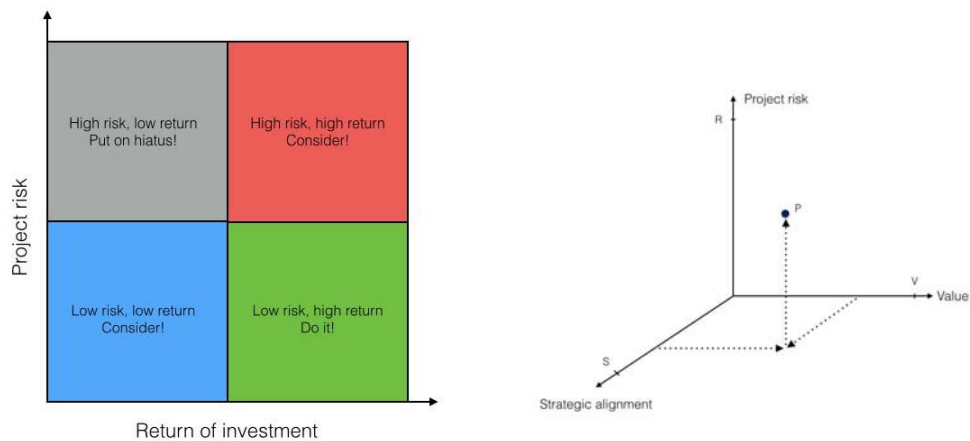
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4.5 Appendices

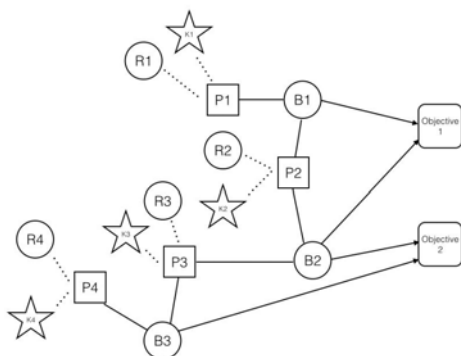
Appendix 4A: Multi-criteria analysis

Benaija and Kjiri (2014) suggest that projects with high risk and low return should automatically be rejected, whereas projects with low risk and high return should be preferred. Projects considered to poise both high risk and high return should be managed according to company strategy.

The same logic applies every time when two out of three criteria are evaluated. Two positive criteria are always preferred, two negative criteria lead to rejection and a project with one negative and one positive criteria require consideration of the third.



In the next step the strategic value of adding the project into project portfolio and the optimization of project interactions are considered. These interactions include knowledge, resources, benefits and strategic objectives within the company.



Appendix 4B: Risk categories

Risk categories listed below describe different risk types one can identify while measuring the project risk. (Pinto, 2010)

- a. Technical risk - risks due to the development of new or untested technologies
- b. Financial risk - risks from financial exposure caused by investing in the project
- c. Safety risk - risks to the well-being of users or developers of the project
- d. Quality risk - risks to the firm's goodwill or reputation due to the quality of completed project
- e. Legal exposure - potential for lawsuits or legal obligation

Appendix 4C: Commercial factors

The following commercial factors should be considered when evaluating the return of investment. (Pinto, 2010)

- Potential market share
- Long-term market dominance
- Ability to generate future business/new markets
- Impact on company's image
- Patent protection

Appendix 4D: Internal factors

The internal factors listed can be used when estimating the strategic alignment of a project. (Pinto, 2010)

- Need to develop/train employees
- Change in worksize/composition
- Change in physical environment
- Change in manufacturing or service operations resulting from the project
- Strategic fit

Appendix 4E: Real options analysis

According to Real Options Analysis, a strategy should be seen as a series of options, i.e. choices of direction at points in time as strategy takes shape, which should be evaluated as such. This real options approach therefore normally increases the expected value of a project because it adds the expected value of possible future options opened up by that project, see example below. There are several benefits with using a real options analysis, some of which include coping with uncertainty and offsetting conservatism. However, the approach is only useful where a strategy is or can be structured in the form of options. It is therefore not suitable for a project where major capital outlay is required in the beginning (Johnson et al., 2011, p. 381).

Appendix 4F: PESTEL

The PESTEL framework categorizes environmental influences into six main types: political, economic, social, technological, environmental and legal. The PESTEL framework therefore provides a comprehensive list of influences on the possible success or failure of particular strategies. The key drivers outlined by the framework are the environmental factors that are likely to have a high impact on the success or failure of an investment strategy (Johnson et al., 2011, p.50). Below is an example of factors taken into consideration in the PESTEL framework.



(Consultants-on-line.com, 2015)

Appendix 4G: Scenario planning

Scenario Planning is performed by identifying key forces in the environment that could affect the company in regards to a specific issue or decision. The forces are then mapped and ranked according to importance and uncertainty. From that analysis scenarios are developed and the implications of those scenarios are assessed so that challenges and risks can be mitigated. The method helps decision makers to unveil how the future could develop and thereby work proactively to leverage that insight. This method is therefore particularly beneficial when assessing the longer term and/or situations in which unexpected changes may disrupt previous trends. Below is a complete list of the steps performed in the methods Scenario Planning, according to Alänge & Lundqvist, 2014:

1. Identify the focal issue or decision.
2. Identify the key forces in the environment.
3. What are the driving forces?
4. Identify and rank factors by importance and uncertainty.
5. Select and build the scenario stories.
6. Flesh out the scenario details and their implications.
7. What will be the leading indicators and signposts?
8. Communicate and represent the scenarios to the contributors.

Appendix 4H: Strategic capabilities

Strategic capabilities are defined as the capabilities of an organization that contribute to its long-term survival or competitive advantage. A firm's resources are highly important and how an organization employs and deploys its resources matters at least as much. An organization's ability to renew and recreate its strategic capabilities to meet the needs of a changing environment is defined as an important aspect of corporate entrepreneurship initiatives success (Johnson et al., 2011, p.85).

Appendix 4I: Net present value

The NPV decision rule facilitates the project selection since it expresses that when investment decisions are made, the alternative with the highest NPV should be chosen. Choosing this option is equivalent to receiving its NPV in monetary value today (Berk and DeMarzo, 2007, p.67). In other words, a project should be accepted if the NPV is positive and rejected if the NPV is negative as accepting it might reduce the wealth of investors. The Net Present Value Formula is as follows (where PV represents the Present Value);

$$\text{NPV} = \text{PV (cash inflows)} - \text{PV (cash outflows)}$$

(Schilling, M., 2014, p.134)

Appendix 4J: Internal rate of return

The IRR calculation is commonly performed through trial and error and is therefore a measure cautiously updated and evaluated since the updated trial and error numbers may change the outlook of the project (Schilling, 2013, p.135). In other words, managers can use IRR if the present value and cash flows of an investment opportunity are known but the interest rate that corresponds to them is unknown (Berk and DeMarzo, 2007, p.126) The internal rate of return formula is as follows (where R is the rate of return and T is the number of time periods);

$$\text{NPV} = \sum \{ \text{Period Cash Flow} / (1+R)^T \} - \text{Initial Investment}$$

(Berk and DeMarzo, 2007, p.126)

Appendix 4K: Discounted payback period vs. NPV

The discounted payback period calculates the time required to break even on the project and does so using discounted cash flows (Schilling, 2013, p.134). This method is often used where the difficulty of forecasting is high and hence also the risk is high. This measure can in such circumstances be used to select projects or strategies that have the shortest payback time (Johnson et al., 2011, p.376).

The three main reasons for why NPV is more reliable than discounted payback period are the following;

1. Discounted payback ignores the project's cost of capital and the time value of money
2. Discounted payback ignores cash flows after the period
3. Discounted payback relies on an ad hoc decision criterion, since the right numbers used for a payback period is hard to determine

(Berk and DeMarzo, 2007, p.215)

Appendix 4L: Interview guide

Explain the background to why you are performing the interview and the topic you intend to ask about. Define terms like corporate entrepreneurship and evaluation criteria.

Start off by asking them about their role to gain an understanding about their context and perspective in addition to making them comfortable.

- A. Which financial criteria does the organization use when evaluating corporate entrepreneurship projects and why are you using today's process? Are the criteria considered comprehensive and how are the past experiences on using them? Check if you can gain access to a documented process and/or example presentation to support the interview.
- B. Which non-financial criteria are utilized in the organization for evaluating projects and why? Are the criteria considered comprehensive and how are the past experiences on using them? Support the respondent by asking about the frameworks presented in the literature review.
- C. Are there any informal or interpersonal ways of evaluating projects? How much do you evaluate those to affect project selection?
- D. Which criteria do you find most important and how do they relate to each other? Are some criteria emphasized more than others?
- E. What are the consequence of your present selection method? What is the success/fail rate for initiatives selected in the past?