Researching Corporate Entrepreneurship: 
Findings of the Corporate Entrepreneurship track at 
Chalmers School of Entrepreneurship 2019

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Preface

A central challenge of mature organizations is the ability to continue to develop the established business model/organizational model while allowing entrepreneurial initiatives to grow. In a world of rapid change, this challenge becomes even severe. A central problem is that entrepreneurial, or innovative, initiatives most often are killed in the established structure. They do not get the financial resources needed, not the best project managers, and not enough management time, for example.

Organizations need to do a better job here. But how? Most answers sound simple, but are difficult to implement. As a collaborative effort between organizations, students, and faculty, we started the corporate entrepreneurship track in 2014 to increase the entrepreneurial capability of organizations, educate students to become entrepreneurial change agents, and create a basis for collective learning. Rather than doing classroom education, the corporate entrepreneurship track is based on the experiences from real initiatives. The findings in this report have been collected through initiatives driven in four different organizations.

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

- Strategy
- Organizational Change
- Entrepreneurial sales
- Finance

This working paper describes each of the four areas with a research question, a corresponding theoretical framework of references and a proposed method. The authors have then collected the findings in the four areas and cross analysed them through the four different projects. The insider action research method applied in the initiatives has gained in depth findings that are hard for any outside research to achieve. This is the first year that we publish such cross-organization findings. We see this report as an important step forward in the collective learning journey.

Johanna Pregmark
Tobias Fredberg
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1 Strategy

Stefan Bojovic, Jackson Malcolm and Niklas Malmén

1.1 Introduction

Dynamic markets and new disruptive technologies are changing the rules of the game; putting pressure on organisations to be flexible and adapt; while continuously benchmarking to achieve efficient processes and best practices (Porter, 1996). A recent report on corporate longevity by Anthony, Schwartz, Van Landeghem and Viguerie (2018), found that the average lifespan of an S&P 500 organisations from 1964 has narrowed from 33 years to 24 years in 2016. Further, their prognosis suggest this will narrow even further to 12 years by 2027. The report highlights how many organisations are failing to adapt or take advantage of new technologies and respond to market shifts. Further, failing by continuing to apply existing business models to new technologies and insufficiently investing in new growth areas. As Anthony et al. (2018) conclude, organisation therefore require new strategies in order to navigate the creative destruction that surpases them as the fail to survive. In other words, organisations need strategies to create and develop new entrepreneurial initiatives on a frequent basis in order to remain relevant and competitive in today's market.

Once more, Kates and Galbraith (2007) posit that different strategies require different organizations to execute them, meaning that new innovative strategies need organisations that reflect and enable these changes. They concretise that organizational design choices should incorporate aspects of strategy, structure, processes, rewards and people practices; aligned in what they call the Star Model. These organizational design choices affect and reinforce each other. To achieve maximum effect, the components of the model should be aligned to support the strategy, since this constitute competitive advantage (Kates & Galbraith, 2007).

In the case of this research, entrepreneurial initiatives have been conducted in six different organisations over the space of one academic year. As result of the nature of entrepreneurial initiatives, high demands are placed on the focal organisations to directly, or indirectly rethink vital organizational design elements, such as the ones segmented into the Star model. Thus, it becomes essential to not only understand the organisational design considerations needed in today's market, but also to investigate what the entrepreneurial initiatives would demand in regards to reconfiguring the organizational elements of the Star Model for future success.

Here, organisational alignment is needed within the Star model in order to incorporate the entrepreneurial initiative. To succeed in ever more uncertain and dynamic environments, organizations must constantly re-align to shifts in the organisations elements, putting pressure on the core activities of the organisation. As many organisations fail to adapt to the market and survive, it becomes of increasing interest for researchers to understand what it is that enables or hinders organisations from successfully incorporating entrepreneurial initiatives into the organisation.

1.1.1 Purpose

By looking deeper into how organisations form strategies to remain innovative and relevant, new perspectives on the relationships between theory and practice may arise. Therefore, the purpose of this thesis is to explore the different approach to innovation strategy within
organisations to further understand what hinders and enables entrepreneurial initiatives in organisations.

1.1.2 Research Questions

In order to understand and gain a better scope of how organisations align their elements to foster entrepreneurial initiatives, this study aims at answering the following:

- How does implementation of entrepreneurial initiatives affect the existing strategies of the organization?
- What elements of the organizational strategy, structure, processes, rewards and people; need to be changed in order to overcome any associated challenges?

1.1.3 Delimitations

The research for this thesis is based on the empirical evidence gathered by the authors of this collective master’s thesis work. The scope of this thesis is therefore limited to the perspectives of the respondents, and subjective judgements will therefore have to be made in order to simplify and maintain a comprehensive data collection in cohesion with the methodology.

1.2 Theoretical Framework

The theories that will be used as part of the theoretical framework for this report are mainly the Star model and activity mapping in order to support and explain the findings regarding strategy and structure in the separate companies the students are at as part of the master’s thesis. The main idea is to understand what organizational capabilities that need to be developed to make sure the strategy is effective and executable. Hence, the purpose of this section is to provide a theoretical framework for understanding the activities in an organization and how they should be designed to support the strategy, with the ultimate purpose being to provide insights on how organizations can create sustainable competitive advantage and foster entrepreneurial initiatives.

1.2.1 Star Model

Organizations across all industries need to be able to adapt and change quickly in the same manner as their business change. According to Galbraith (1999), this is possible to meet by assessing how the business is designed to be able to become agile in the first place. One of the reasons as to why organizations need to have the ability to change is that relying on one competitive advantage will not be sustainable in a longer perspective. From an historical perspective, the structuring of an organization was done in order for the business to deliver product and services with operational effectiveness.

The Star model was developed in light of this reasoning and it was explained by Galbraith (1995). However, D’Aveni (1994) suggests that this model is flawed for today’s organizations as the advantage produced by the specific formula does not last too long. Galbraith (1999) agrees that aligning an organization around a specific formula or strategy can make it difficult for an organization to redesign. However, he argues that the problem does not lie in the fact that the organization is aligned, but rather on the focus on a specific formula and strategy that prevents a sustainable competitive advantage. Galbraith (1999) further explains the need of a Star model that can be redesigned easily to meet changes.
In order to have an organization that is able to utilize short-term advantages as a strategy and that is able to realign, the key lies in the structuring of the organization. Galbraith (1999) argues that this can be done by creating an organization that is made up of various cross-functional teams. He continues with pointing out that there are five different elements in the Star model (see Figure 1; structure, processes, rewards, people and strategy). Together these elements can support the capability to re-configure an organization and the elements are related to and inevitably affect each other and the overall strategy of the organization. Hence, the Star model can be used as a map of the different areas in the organization, which impact the strategy.

Figure 1 The Star model with the different capabilities that affect the ability to reconfigure the organization.

1.2.2 Activity Mapping

The level of fit between the different organizational activities drive both competitive advantage and the level of sustainability of the advantages in relation to competition (Porter, 1996). Porter (1996) explains that operational effectiveness is about striving for achieving improved performance in individual activities, while strategy regards how these activities are combined together. The level of competitive advantage is developed through the level of fit between the activities and how they reinforce each other, and it is this fit between activities that enables an organization to create barriers for competitors by creating a strong chain. Porter (1996) gives an example is which the cost of activities could be lowered by how well the other activities are linked to a certain activity. Similarly, the customer value developed through a single activity can be increased by other activities and that this ultimately leads to superior profitability for an organization.

Porter (1996) continues with arguing that there are three types of fit between various activities in an organization. He begins with describing the first one, that being simple consistency between each activity by aligning all activities to the organization’s philosophy. Thereby, the organization can be certain that the advantages cumulate and makes strategy communication throughout the organization easier. The second type is when activities reinforce each other, meaning that the well-functioning of an activity improves the other activities around. The third and last type is effort optimization, which means that every part of an organization should be optimized in order to reduce the amount of non-value adding processes. Thereby, the value produced through the activities in an organization is maximized.
In order to evaluate and reinforce the strategic fit in an organization, an activity-system map can be used (Porter, 1996). Some key issues need to be addressed to support the mapping, including whether each activity is consistent with the overall positioning, if the needs are served and that type of customers that are accessed through the activities. Furthermore, questions regarding whether other activities increase or decrease the performance, if there are other way to strengthen the activities by reinforcement by one another and whether changes in a certain activity can eliminate the need in others. In conclusion, the activity system is what the organization de facto does and the goal is to create relevant and value creating activities that support the overall strategy in order for the organization to create sustainable competitive advantage.

1.3 Methodology

This study is based on insider action research, where the research is performed in the same setting where the insider works (Teusner, 2016). According to Coghlan (2007), this offers unique insights into the focal organization since the research is conducted in a context of application. Since the insider researchers were not members of the organization before the study took place, this could be contrasted with what Coghlan (2007, p. 336) calls “complete insidership”. The inside researchers were posted at respective company’s temporarily during the data collection for this research. Thus, this work falls somewhere between complete insidership and a more temporary type of insider research.

Semi-structured interviews have been used to compliment to the inside researcher’s observations. As the name implies, this interview type is not as structured as a quantitative interview, where the aim is to generate codifiable data (Bryman, 2011). Instead, the semi-structured interview is based on predetermined themes where the interviewee has a high degree of freedom in formulating their answers (Ibid). According to Bryman (2011), the method is also adaptable towards what the interviewee thinks is relevant in the context of the interview. The interpretation of the interviews is made easier if the interviewer is somewhat acquainted with the environment that he or she intends to study (Bryman, 2011; Patel & Davidson, 2011), which goes along well with the insider action research method.

The data gathering was done in two stages. Firstly, the Current state, where an initial analysis using the Star Model and activity mapping of each respective company was done. During the process of the corporate entrepreneurship year, each corporate team produced another activity map of the Desired state. This helped to contextualise the innovation project and the activities needed for successful implementation. From here, the data was used to compare and analye with the current Star Model and frame a desired Star Model for the future organisation. This provided the grounds for the discussion around respective findings and allowed the respective researchers to think freely around their findings of what would be a desired state in order for their organization to successfully incorporate entrepreneurial initiatives. Differences between the current and desired state, target the purpose of this thesis and the basis for answering the research questions.

In order to lead each corporate team through data collection and interpretation, guidelines for Results and Analysis were suggested as they allow for the authors of this thesis to understand and conduct a better cross analysis during a workshop with all projects. Further, in doing so this allowed for more coherent collection from the inside researches increasing the reliability of data. Further, ethical considerations were made during the cross-analysis in order to maintain
privacy of respective organisations. As a result, respective organisations were given aliases (Organisation A, B,...) and descriptive factors like organisations size were grouped into categories (Small, Medium, Large). This allowed for deeper levels of analysis while maintaining anonymity of organisations.

1.3.1 Star Model

In regards to the star model, the interviews and observations were focused on capturing the following aspects:

- **Strategy**: What is the formula for success? How do we differentiate ourselves from our competitors?
- **Structure**: How are we organized? What are the key roles? How is work managed? Who has power and authority?
- **Processes**: How are decisions made? How does work flow between roles? What are the mechanisms for collaboration?
- **Rewards**: How is behaviour shaped by the goals? How do we assess progress?
- **People**: What skills are needed? How do we best develop our talent?

Adapted from Kates and Galbraith (2007)

Step two, where the corporate entrepreneurship projects are taken into account, were more dynamic and speculative, since some of the projects didn’t got to a stage where they could be implemented in full during the course of this work.

1.3.2 Activity Mapping

Activity mapping was performed on the current state of the organizations that the corporate entrepreneurs entered. This was contrasted with an activity map of the intended innovation project, where the aim was to capture the degree of fit or non-fit between the two, later to discuss how the strategy could be adapted to include the entrepreneurial initiative. See Appendix 1 for a step-by-step guide. Both activity maps followed the design process outlined below, adapted from Zott and Amit (2010) with an added validation step:

- **Content**: Identify which activities are performed and which are the core activities of the organization
- **Structure**: Map out how the activities link to each other
- **Validation**: Validate the map through data collection

Adapted from Zott and Amit (2010)
1.4 Results

1.4.1 Introduction to cross analysis

This cross analysis on the research question of strategy and structure reflects evidence from six corporate entrepreneurship projects that have run during the course of ten months at six different large organizations. It is divided into the five components of the Star model (Galbraith, 1995) and is subdivided according to the common themes that have emerged during cross-discussions on the respective organizations’ findings. The purpose is to provide evidence for what enables and hinders entrepreneurial initiatives in large organizations. In the cross-analysis, specific evidence from certain organizations will be provided. Organization A is an automotive organization; Organization B is a steering system supplier; Organization C is an automation organization; Organization D is a mobility provider; Organization E is an engine manufacturer; and Organization F is a plant and garden reseller. As the methodology is related to insider action research, it should be noted that when it is being referred to e.g. Organization X, what is actually meant is the corporate entrepreneurs affiliated with Organization X and their experiences or observations, if not stated otherwise.

1.4.2 Cross Analysis

This cross analysis is divided into five different components, with different subcategories; strategy, structure, people, processes and rewards in which the evidence that make up for the analyses are from different organizations. Specific references are made to certain cases that are deemed insightful to further understand what enables and hinders entrepreneurial initiatives in large organizations.

1.4.3 Strategy

This section describes two areas related to Strategy, more specifically strategic alignment and access to strategic discussions, that have been identified as relevant in order to enable or hinder entrepreneurial initiatives in established organizations.

1.4.3.1 Strategic Alignment

Across the six organizations, one can see a prominent difference in the strategic intent, where some organizations are actively driving transformation while others are “being hit” by, or merely reacting to changes in their external environments. To exemplify, the intent of Organization D is to be “the most innovative automotive organization”. In contrast, Organization C and F does not seem to hold innovation as part of their formula for success. This can be seen to have implications on how the corporate entrepreneurs were able to utilise the strategy as a means to rationalise the need for their projects within the organizations.

The corporate entrepreneurs in Organization D argue that their project fell within the scope of the strategy almost automatically, thus making it easier for the organization to motivate the need for the project. However, this was one of the organizations that displayed a forward leaning strategy. In contrast, the corporate entrepreneurs affiliated with Organization F tried to pursue a project that did not quite align with the strategy. This, in combination with other factors, eventually rendered the project into termination. Organization C describe that they have been working actively to align their project to the overall strategic goals for the organization. Here, the strategy did not explicitly encompass innovation. However, one of the strategic goals was relatively ambiguous, which likely allowed the corporate entrepreneurs to have some ‘wiggle
room’ when aligning the project to the strategy. The corporate entrepreneurs in Organization C experienced a noticeable difference in the progression of their project once the decision makers fully understood the strategic connection. Overall, aligning the potential benefits of the corporate entrepreneurship project with the strategy of the focal organization has been identified as a key success criterion when driving these types of initiatives. A corporate entrepreneurship initiative competes for organizational attention and resources with the more mature parts of the business. Consideration to, and alignment with, the strategy has been shown to have a positive effect in legitimizing the corporate entrepreneurship projects in this study.

1.4.3.2 Access to Strategic Discussions

Needless to say, strategic alignment becomes a lot easier if the corporate entrepreneurs have access to the forums where strategic considerations are discussed in the first place. In Organization C and Organization E, the strategic goals were frequently communicated at recurring information sessions. For Organization C and Organization D, the strategy seem to permeate the whole organization. However, it has been noted that there is often a difference in what is being communicated to the employees and what is being discussed at management level, where the latter has been shown to be more multifaceted as well as more future oriented.

Nevertheless, there is a structural element to it as well. It is interesting to note that corporate entrepreneurs involved with Organization C, who reported to the CEO, were frequently involved in strategic discussions. The team argue that this created early insights that could then be translated into specific criteria for their project. For other teams, such discussions were more distant in the organizational hierarchy. Organization F describe that they did not have much access to the strategy throughout their project, and this made it virtually impossible for them to ‘sell’ the project internally as well as getting access to resources.

Furthermore, entrepreneurship is not seldom connected to innovative ideas that can have the potential to challenge the strategic agenda for the future. This reinforces the need for having strategic discussions, both on the responsibility of the corporate entrepreneurs, but also on the organizations that incubate the projects.

1.4.4 Structure

Since corporate entrepreneurs need to navigate within organizational hierarchies and politics, organizational structure is important to take into consideration. Below, three factors in relation to Structure are elaborated upon, namely access to resources, organizational stability and the degree of structural separation.

1.4.4.1 Access to Resources

Having access to infinite resources is clearly a factor that would benefit any project. However, this is seldom the case for these types of entrepreneurial initiatives. When looking at the six initiatives, one can spot some differences in the extent that resources were allocated.

Organization A, Organization C and Organization E got funding for going to industry fairs and events. This was identified by the Organizations as an invaluable way to get industry and market insights, and to spur creativity during the ideation phase. Furthermore, these events served as an excellent way to interact with people and get valuable contacts. One person that Organization C met at an industry fair has given the team feedback throughout the whole project duration. Resources were also needed to interact with customers to disclose customer needs, discuss concepts and test their Minimum Viable Product (MVP). Here, some organizations, e.g.
Organization B, Organization C and Organization E agreed to pay for train tickets and allocate organization cars. Once the projects started gaining traction in the organizations, more resources were often needed. For example, internal software engineers and UX designers were essential to develop Organization D’s ideas into a working prototype. For Organization C, a project team of five people needed to be put together to guide implementation, which can be seen as an internal cost.

All organizations described that access to resources was at some point essential to progress with the projects - whether that was tickets to a fair, putting together a project team or funding a major milestone in the project.

**1.4.4.2 Organizational Stability**

When driving corporate entrepreneurship initiatives, the stability of the organization has been identified as a crucial factor, especially during projects with a limited time span. Organization A illustrate that there were some reorganizations taking place during their project, where the organization's identity and place in the holding organization’s portfolio it was part of became questioned. This led to some ambiguity for the corporate entrepreneurs, who had to rethink where their project stood in this new context. Another, more radical, example is provided by Company F. The department in which the project was housed got shut down, which strangled all the resources. Suddenly, the project team stood without a clear place in the organization, and had to look for other subsidiaries in the conglomerate to house their project. Needless to say, it became an impossible task to re-ignite the project in a new organization with just months left of the initiative.

Of course, entrepreneurial projects are iterative and dynamic by nature. However, there seems to be a difference in e.g. task or market uncertainty and the type of uncertainty described here. In discussions between the six corporate entrepreneurship initiatives, a stable organizational structure has been identified as an enabling factor for successful corporate entrepreneurial initiatives.

**1.4.4.3 Structural Separation**

The challenge with structural separation lies in allowing the entrepreneur to act relatively autonomously away from the organizational inertia, but at the same time find an interface with sufficient links back to the ordinary organization. It will be elaborated more on the corporate entrepreneurs’ ability to act autonomously in section 2.4.1. In this section, the more mechanic part of the structures will be discussed.

Structure is identified as yet another important factor for corporate entrepreneurship by the six organizations. As noted in section 2.1.2, reporting level seem to be important in order to get sufficient organizational attention. Organization C argue that an enabling factor has been to not having to conform to the ordinary structure. However, their initiative was still connected to one specific department, which acted as some sort of alternative structure. Organization D provides evidence that the relatively flat structuring of their organization enabled the corporate entrepreneurs to interact with many different functions and levels within the organization. On the opposite side, Organization F describe that they were constrained in their structure, and had a tough time reaching out to people high in the hierarchy, which might have been needed for e.g. discussions about the strategy.
1.4.5 People

The following part on *People* is divided into three different subcategories: internal sponsors, executive support and collaborative soft skills.

**1.4.5.1 Internal Sponsors**

The importance of having internal sponsors became evident during multiple projects, as a way of building personal legitimacy, accessing key people through the internal network and gaining momentum. For instance, Organization E described it as their internal sponsor was crucial for the success of their project, as it enabled them to meet with dealers and thereby validate their hypotheses and develop their MVPs. Furthermore, it was also important in order to create a sense of urgency for the project, as the internal sponsor found a personal benefit in making sure the project was kept alive and developed, which made the internal sponsor act as an ambassador for the project internally. All organizations described it as if the existence of internal sponsors had a positive impact on their respective projects and that the lack of internal sponsors had a negative impact on their respective projects.

**1.4.5.2 Executive Support**

Another factor from a people perspective that was deemed important was the benefit of having executive support. Both Organization C and Organization D worked close to the CEO of the organization. They describe their success of their projects to a large extent being dependent on the executive support, as the respective CEO’s became ambassadors for the projects. On the other hand, Organization B experienced how the tide turned when the executive support was decreased and that this had a negative impact on their project.

**1.4.5.3 Collaborative Soft Skills**

Having collaborative soft skills emerged as an important factor throughout the teams, both within the team and with others within the organization. It seems as if corporate entrepreneurs need to have this collaborative soft skills, especially in large organizations where there are cross-functional collaborations between different parts of the organization. This also connects to the importance of the organization to create the feeling that the corporate entrepreneur is part of something larger and part of a team. For instance, Organization C described how they ended up representing their organization at a fair, whilst for instance Organization F made the case that due to their organizational instability mentioned in section 2.2.2, they were not able to establish deeper relations with their colleagues, which ultimately had a negative impact on their project.

1.4.6 Processes

The following part on *Processes* is divided into corporate entrepreneurship initiatives to act autonomously and interacting with customers.

**1.4.6.1 Autonomy**

The ability for the initiative to act autonomously in the organizational context was deemed as a crucial factor. For instance, Organization B argues that distance is good as it allows the corporate entrepreneur to innovate and there is guidance which helps at time within the project. However, the corporate entrepreneurs felt as if they were being too steered in how their project should be conducted and executed. Organization C argues that this was at sometimes a hurdle to jump, as substantial amount of time went to trying to convince key people at the organization
that the outcome of their project would benefit the organization in the long run. Organization F provide evidence that they were told exactly what to do, which ultimately led them to executing ideas that they did not believe in, and the sole purpose of pursuing a corporate entrepreneurship initiative was diminished. On the other hand, Organization A, Organization D and Organization E were given substantial leeway and had the possibility to in practice pursue whatever project they deemed was important. This also connects to the trust that the corporate entrepreneur perceives is being facilitated between the initiative and the organization. Hence, it seems as the optimal point lies in the balance between being autonomous and having adequate support from sponsors.

1.4.6.2 Interacting with Customers

The possibility to interact with customers was also a theme that emerged during the cross-organization discussions. For instance, both Organization B and Organization F were either not allowed or encouraged to talk to customers and were thereby not able to build legitimacy within the organization. These projects were either shut down or decreased in scope during their time at the respective organizations.

On the other hand, Organization A, Organization C, Organization D and Organization E were allowed and encouraged to talk to customers and the organization acted as an enabler by facilitating meetings or initiating contacts with the customers. It seems as if this reason was a factor for why the projects were kept alive, thrived and will ultimately the implemented in the organization going forward. The interactions with customers are crucial to develop a MVP by validating hypotheses and testing problems and solutions by anchoring them with the users. There are mainly two benefits to having the possibility to interact with customers, as suggested by the cross-organization findings. First, from the perspective that the solution itself can be further improved when developed together with users and building features that correspond to their reality. Second, it seems as if it weighs a lot when the corporate entrepreneur is able to refer to insights from customers and say “this is what they want”. Thereby, a sense of urgency is created and the corporate entrepreneur is able to get buy in from stakeholders within the organization through these insights.

1.4.7 Rewards

This section on Rewards will discuss intrinsic rewards as well as a supportive culture to enable entrepreneurial initiatives.

1.4.7.1 Intrinsic Reward Systems

All organizations used a more formal type of reward system regarding monetary rewards. However, there was some variation in this regarding annual salary bonuses for employees at respective organizations. Both Organization A, B and E, gave salary bonuses based on the performance (organizational and individual) with the rest of the organizations applying a more traditional bonuses based upon industry regulations. Further, Organization A offered recognition and small financial bonus for submission of innovative ideas, however, the sum of this bonus was deemed to be very small in regards to salary bonuses. As a result, this monetary reward could also be seen as more of an intrinsic reward as it offered recognition and homage to employees as well. Organization B provided the opportunity for monetary investment in early-stage ideas from employees. Although monetary, it could be seen more as a intrinsic motivational factor allowing employees to pursue ideas deemed to have potential. Furthermore, Organization E offered its employees as another monetary incentive in the form of share
ownership, which was an interesting as none of the other organizations seemed to compensate using this making.

On the other hand, all the organizations had also put in place some sort of intrinsic reward system with some overlapping factors between them respectively. In Organization A (submission of innovative ideas noted earlier), D and E, respective reward systems were based upon recognition. It was highlighted that Organization D mentioned importance of flexibility with regards to finding intrinsic motivational factors and being able to personalise recognition to suit individual employees. For example, recognition at Organization D could be anything from social media post, to mentions during meetings or even afternoon tea. It was noted that they try to pursue a more personalised approach with the help of more intimate relationships between managers and their teams. Once more, Organization D rewarded altruistic behaviour like teamwork connecting well to the people sought by their organization. Organization E, would use internal recognition when the employee performs well, however, less was known regarding the KPIs surrounding performance. Moreover, Organization C and F seemed to use promotion or career advancement as a way of internally motivating employees. In Organization C, this was seen more as a shortcut to reaching higher management roles traditionally found within their industry sector and Organization F, promotional opportunities were noted as a general intrinsic factor. Once more, Organization B, D and E employed self-development as an intrinsic motivational factor for employees. In Organization B and D this included frequent extracurricular activities outside of work available to all employees including activities like collective gym sessions, sports days, work life balance seminars and opportunities for specialised education. Organization E offered its employees annual one-on-one meetings with management to review achievements and help with target setting of personal goals for the next year.

The importance of intrinsic motivational factors seems to be a very important with regards to rewarding employees. In the case of Organization B, rewarding employees with early-stage financial investment into ideas that showed potential seems to be of a hybrid type, showing both monetary and intrinsic motivational connections. As a result, Organization B was an outlier as it was the only one to use this hybrid motivational factor. Regarding Organization D, recognising altruistic behaviour had strong connections to the type of people the organizations was looking, namely those with collaborative skills, as the organization named a strategic shift towards a more cross-functional organizational structure and processes. While it could be assumed that many organizations also are in search of people with a collaborative skill set, none of them mentioned rewarding such behaviour which makes Organization D an outlier. Both organization C and F used promotion as a intrinsic reward factor. Interesting to highlight is that of all the organizations studied, Organization C was the smallest employer and Organization F, apart of a large conglomerate, and therefore the largest employer. In this context, using promotion seems to be a motivational factor for employees irrespective the size of the organization. Further, self-development was proposed as an intrinsic motivational factor. Noticeably, Organization B and D used extracurricular activities available to all their employees. Both these Organization were of a smaller type regarding the size of the organization, supporting their ability to organise and provide such services to their employees. Whether the larger organization have the organizational capability to fully provide this type of self-developmental opportunities to their employees was not found.

To summarize, regarding rewarding employees to promote innovative activities seemed to be a combination of both monetary and intrinsic motivational factors. Looking at the findings, it would seem that in some cases a smaller organizational size allows you to provide more
personalised recognition and extracurricular activities. In general, organizational size showed no connection to the use of promotion as an intrinsic motivational factor.

1.4.7.2 Supportive Culture

In the case of Organization B, a reward system using a motivational factor of a hybrid type (monetary and intrinsic) was found. The findings also showed the presence of a supportive culture of innovation which could be strongly associated with this finding of a hybrid motivational factor. Put into context, Organization B is a steering system supplier to a large automotive organization and one of the smaller organizations studied and benefited from higher profit margins than most of the other organizations. In this case, they have identified that they can support an innovative culture by providing monetary incentives, which motivate employees to pursue ideas, providing an intrinsic driver. Organization B was able to incubate early stage ideas, possibly as a result of greater financial security, allowing them to grow and cultivate a supportive culture of innovation. This shows the importance of financial security of an organizations and how the stable revenues can allow for an entrepreneurial culture to grow.
1.5 Conclusions

The findings suggest that there are some common themes and patterns in what enables and hinders entrepreneurial initiatives. In terms of strategy, it seems as if an initiative should be developed with strategic alignment and that an instrumental part of this is for the corporate entrepreneur to have access to the strategic discussions at the organization. Going forward, from a structure perspective, the corporate entrepreneurship initiative should have access to resources to perform activities necessary to develop the project. Furthermore, it seems as if it is absolutely fundamental that there is organizational stability and a sufficient level of structural separation. From a people perspective, the findings suggest that it is important to have buy in from internal sponsors and that, if possible, there is some level of executive support. Furthermore, the corporate entrepreneur should have the adequate collaborative soft skills to be able to navigate the corporate space. In terms of processes, the cross-organization findings argue for the case that the corporate entrepreneur should be able to act autonomously and be given the possibility from the organization to interact with customers to anchor the development of their solution together with the users. Lastly, from a rewards point of view, the findings suggest that there should be an intrinsic rewards system and a supportive culture at the organization to foster the corporate entrepreneurship initiative.

As suggested by the findings above, there are a number of external factors the corporate entrepreneur cannot affect or influence themselves. However, as corporate entrepreneurs are acting in an ecosystem of multiple different stakeholders, processes and structures, it is crucial to be able to navigate this space. Furthermore, corporate entrepreneurs need to be able to empathize with the context they find themselves in, for instance, dealing with hierarchies and politics. The same goes for instance for the fact that corporate entrepreneurs might initially be encouraged to pursue entrepreneurial initiatives. However, if any of the factors listed above are not pursued accordingly, it seems as if the internal mechanisms of a large corporation will either make the project move from radical and core to the incremental and peripheral, or it will be shut down. It is safe to say it is impossible to know beforehand how certain things will turn out and this cross-analysis of six large organizations is a testimony to this. However, the organization and the corporate entrepreneur can try and make sure the best possible environment to thrive in is created, in order for the initiative to be successful.
1.6 References


1.7 Appendices

1.7.1 Appendix 1: Activity Mapping Step-by-step Methodology

- Identify which activities are performed
- Identify core activities
- Map out how the activities link to each other
- Validate the activity map
- Identify which activities are performed
- Identify core activities
- Map out how the activities link to each other
- Validate the activity map
- Analyse the level of fit between the two activity maps
2 Organizational Change

Alina Afanasjeva, Martin Andersson and Karolina Erhardsson

2.1 Introduction

This chapter sets the background of the study. In the background part, the relevance of the selected topic is discussed. In particular - the importance of corporate entrepreneurial ability, and innovativeness are evaluated, as well as their connection with company’s culture and core purpose. Moreover, the research setting is explained here. The background is followed by introducing the twofold purpose of the master thesis. Finally, the research questions, set by the authors, are presented.

2.1.1 Background

Change truly is an element present in all organisations which also has a large effect on their ability to survive (Todnem R. 2007). During the latest century the average lifespan of companies have decreased by 50 years, from 65 years to as little as 15 years (Callahan, Darius & Mauboussin, 2007). Because of the rapidly changing environment leading to disruptive technologies and trends, companies today struggle to keep up with the fast pace. In order to survive, companies must be flexible and innovative to be able to respond to the constantly evolving customer needs. Therefore, entrepreneurial ability is crucial and most companies today strive to be innovative (Callahan, Darius & Mauboussin, 2007).

Furthermore, it is known that about 70% of all organizational change efforts fail (Keller & Aiken, 2009). One of the reasons for this is believed to be not taking the organizational culture into account (Kotter, 2007). Kotter states that creating a new, shared vision and communicating it effectively is essential. Moreover, Pregmark and Fredberg argue, that corporate entrepreneurial change initiative increase the survival chances when aligning with purpose (Pregmark, Fredberg, 2018). Therefore, when trying to implement a more entrepreneurial organization, one can suppose that the organization's culture as well as core purpose will be important factors in creating a successful transformation.

Having various scholars had proven the importance of organisational culture as an enabler of corporate entrepreneurial ability (Glaser, Zamanou & Hacker, 1987), the construct of the entrepreneurial ability still needs to be operationalized and measured. The authors of this study set the hypothesis that the organisational culture is connected to corporate entrepreneurial ability and influences it greatly. Thus, since the first one can be measured, the latter can be as well.

In order to analyse corporate culture, the authors utilised Hofstede’s 6-dimensional culture framework (Hofstede, 2011). This dimensional paradigm serves as a great help when trying understand the internal logic and the implications of the changes in the organisations (ibid). Additionally, many authors state that a clear vision, or model, of the future state is fundamental for creating a new strategy and for a change process to succeed (Pregmark, 2016). With this in mind, this thesis intends to investigate the relations between the organization’s entrepreneurial ability, culture and core purpose; and if the entrepreneurial ability of the firm can be measured via corporate culture parameters.
This study was conveyed as a joint effort of 12 Chalmers School of Entrepreneurship Corporate entrepreneurship students, graduation year 2019. These students have been divided into 6 teams and located to 6 different companies for a one-year master project, during the second year of their education. The students were acting as corporate change agents within organisations, leading their intrapreneurial ventures, and collecting unique first-hand insights and data by participating in the action-based research.

2.1.2 Purpose

The research has twofold purpose. Firstly, the aim with this thesis is to create a framework, that connects elements of organisational culture with that of entrepreneurial ability. This framework could be then used as a measurement tool for evaluating organisation’s entrepreneurial ability, based on 6 cultural dimensions (Hofstede, 2011).

Second aim of this research is to evaluate, if and how is organisation’s core purpose connected to its entrepreneurial ability.

2.1.3 Research questions

This study was conveyed in order to answer the main question: How do the organisation’s core purpose and culture relate to the entrepreneurial ability? The binary purpose of this report, however, suggests the following (more narrowed) research questions:

RQ1: How does the organisational culture influence its entrepreneurial ability?

What is influencing an organisation’s culture and how is that culture influencing its entrepreneurial ability?

RQ2: How does the actual core purpose of an organisation encourage entrepreneurial ability?

2.2 Literature review

In this chapter the literature used in this master thesis is overviewed. Firstly, the organizational culture studies are reviewed. For this study, the organisational culture is discussed through Hofstede’s framework of six dimensions of culture. In the second part of the chapter, the authors present the academic research around entrepreneurial ability. In the same part, Hofstede’s 6 dimensions of culture are evaluated through their connection to firm’s entrepreneurial ability. Lastly, the frameworks, describing the linkage between organisational purpose and entrepreneurial ability are to be found.

2.2.1 Organizational culture

Sathe (2003) claims, that the biggest challenge today’s firms face is fostering innovation as a source of competitive advantage, while at the same time maintaining business as usual. According, to Galbraith (1982), new processes and attitude should be applied when building an innovative organisation. Scholars discuss, that not only new processes are required, but a big role in the success of corporate innovation projects is allocated to the company culture, which encourages innovation and entrepreneurship. Cabrera, et al. (2001) have proven, that about 80-90% of technical and innovation projects fail to meet their performance goals due to
organisations inadequate attention to non-technical, i.e. human and organisational factors, and especially corporate culture.

Culture is broadly understood as “a set of basic tacit assumptions about how the world is and ought to be that a group of people share and that determines their perceptions, thoughts, feelings, and, to some degree, their overt behavior” (Schein, 1996). This definition is slightly adapted when used in a corporate setting, where a group of people is rather defined by the pre-conditions. The term “organisational culture” was coined approximately in 1979 (“On Studying Organisational Cultures”, Pettigrew), and since then has been researched by various scholars. Hofstede (1991) develops this definition further by adding three main factors affecting behaviour of a person in the workplace, them being national culture, occupational culture, and organisational culture. For this study, the term “organisational culture” is defined by Cabrera, et al. (2001), who suggest, that “organizational culture is based on differences in norms and shared practices which are learned in the workplace and are considered as valid within the boundaries of a particular organization”.

Having in mind the definition of organisational culture given by Cabrera, et al., in the present report, the organisational culture is evaluated in accordance with Hofstede’s (1991) six dimensional framework of organisational culture. The framework allows to evaluate company’s culture based on six self-contained parameters: 1) job vs employee orientation; 2) professional vs parochial orientation; 3) tight vs loose control; 4) pragmatic vs normative; 5) process vs result orientation; 6) open vs closed systems. Below follows a description of the six dimensions of culture.

**Job vs. Employee orientation**

Does management focus their responsibility more on the performance of each job or more on the general wellbeing of its organisations employees. In a job oriented culture the organisational leadership only focuses on an employees performance in their respective role, with no exceptions (Hofstede, 2011). If a firm is not only focusing on job performance but takes into account the general well-being of the employees in broader sense, the culture is deemed more employee oriented. An organization’s orientation toward either job or employee is believed to be connected to historical performance of the organization or by the philosophy expressed by its founder (Hofstede et al., 1990)

**Professional vs. Parochial orientation**

In organisations with a more professional orientation employees identify themselves more with their respective role while in parochially oriented organisations employees identify more with the organisation as such. According to Hofstede (1998), the staff operating in parochial cultures feel like company’s norms cover their behaviour at home, as well as at work, while in professional cultures the members clearly distinguish their private lives and business. Professional oriented companies’ employees believe, that one should be hired because of own skills and competences only. On the contrary, the parochial company staff believes, when recruiting, person’s character, background, and cultural compatibility with future team should be encountered. Parochial company culture is widespread in Japanese companies (Hofstede, 1998).

**Tight vs. Loose control**

This dimension focus on the degree of structure of the organization. Tight controlled organizations emphasizes formality, such as punctuality and adherence to standards. This type
of organization strive to be as predictable as possible with a culture where employees follow orders and work descriptions strictly. Moreover, a tight organization values cost and resource efficiency, as well as an error free performance. Loose controlled organizations have a very low degree of control and often lacks standards and formal procedures. Such organizations are more laid back regarding work, schedule and sometimes even costs.

Pragmatic vs. Normative

This dimension handles the level of customer orientation of the organization. A pragmatic organization is market driven, customer focused and has a result orientation. The most important goal for a pragmatic organization is customer satisfaction, which makes the culture externally driven and procedures flexible to meet customer needs. A normative organization, on the other hand, value the past and deals with problems according to traditions and norms. Procedures are more important than the following results. A normative organization strongly believes they know what is best for the customer, and hence the culture is internally driven.

Process vs. Result orientation

A process oriented organization puts more emphasis on how to get to a certain outcome, what technological and bureaucratic routines are needed. On the other end, result oriented organisation put more emphasis on the actual outcome, not as much on how it was achieved. Hofstede’s research (1998) has shown, that people in process-oriented cultures minimally invest in the jobs and perceive themselves as being risk avoiding. Hofstede compares process vs result orientation dimension with Burns and Stalker mechanistic systems theory. According to Burns and Stalker (1961) mechanism systems are, among other things, characterized by: 'the abstract nature of each individual task, which is pursued with techniques and purposes more or less distinct from those of the concern as a whole'; i.e. the functionaries tend to pursue the technical improvement of means, rather than the accomplishment of the ends of the concern; organic systems are characterized by 'the "realistic" nature of the individual task, which is seen as set by the total situation of the concern'.

Open vs. Closed systems

How inclined is the organisation to communicate with external parties and how keen are they on letting in and welcoming outsiders. If an organizational culture is more open it is more inclined to communicate with external actors, outside of the company boundaries. In closed cultures it is more difficult for an external actor to get access to information to the organization and it takes longer for a new employee to be accepted internally.

2.2.2 Entrepreneurial ability

In a hectic, highly competitive world, organisations are forced to simultaneously leverage the current business model and create the future model (Fredberg, Pregmark, 2018). This can not be done in the same manner, as the organisation has conveyed businesses and processes before (Galbraith, 1982). Firms therefore have to develop corporate entrepreneurial ability. Entrepreneurial ability, as described by Bayon et al. (2015), involves three main activities: opportunity identification, opportunity evaluation and new venture creation. Hisrich (2005) defines corporate entrepreneurial ability as “firm’s ability to define opportunities, capture them, and follow these opportunities to achieve specific results”.

In this study, Hisrich’s definition is used as a base, but is supplemented by several characteristics. Firstly, corporate entrepreneurial ability involves the organisation dealing with
high risks and being able to operate under the conditions of high uncertainty. Secondly, entrepreneurial ability is directly connected to the development of radical technologies, and working on radical initiatives. Thirdly, companies with highly developed entrepreneurial ability allocate substantial resources to testing and prototyping new ideas, since such structural allowances can drive change (Liedtka & Rosenblum, 1996). Lastly, according to the Dynamic Capabilities Theory (O’Connor, 2008), the real value of an entrepreneurial organization lays within its own capabilities to adapt, integrate and reconfigure the changing environment to develop a competitive advantage.

To be able to connect the entrepreneurial ability with Hofstede’s culture dimensions (1991), several concepts were taken from the works of various scholars. Ireland, Kuratko and Morris (2006) have indicated the connection between entrepreneurial culture and employee orientation. They, together with Hisrich (2016), claim that employee orientation and the evaluation of employee’s individual entrepreneurial performance can arguably raise the entrepreneurial capabilities overall. Another set of scholars, including Jones (1983), Pfleging, Zetlin (2006), Ahmed (1998) and Walrave (2010), have discovered that medium strong parochial focus stimulates the development of radical innovation. Jamrog et al. (2006), Tushman and O’Reilly (1996) together with McLean (2005) and Kulesa (2005), have seen the indications that tight control kills creativity and innovation, while being the most common barriers to corporate entrepreneurship.

On the parameter of pragmatic versus normative, the researchers, including Martins and Terblanche (2003) and Daneels (2004) have collectively agreed that focusing on open and latent customer needs in product development creates pressure to improve and develop new radical products and be more innovative. When it comes to choosing between process and result orientation, the entrepreneurial company should favor result orientation, as according to Carayannis and Chanaron (2007), Ahmed (1998), and Bessant and Tidd (2007), innovation supportive culture should have strong goal focus. Lastly, based on the studies of Keller and Meaney (2017), Ireland, Kuratko and Morris (2006), open systems allow for better insight into developing opportunities, so are therefore advisable for companies to adopt open culture rather than being closed.

2.2.3 Organizational purpose

When researching factors which determines an organization's entrepreneurial ability, one comes across the term organizational purpose (Ireland, Hitt, Sirmon, 2003). Defined by John Baldoni (2011) an organization’s purpose is its reason for existing. This reason is built up from three different perspectives. Firstly by defining an organization’s vision; what they’re aspiring to become, secondly by defining its mission; what is the organization actually doing, and thirdly; what values is guiding the organizations every day decisions (Baldoni, 2001). The values accepted by the organization are what shaped its culture, so by introducing entrepreneurial ability to an organization’s purpose will help shape a more entrepreneurial culture (Ireland, Hitt, Sirmon, 2003).

It is believed that an entrepreneurial culture are developed in organization where its leadership employ an entrepreneurial mindset which creates the organizational capabilities needed to exploit entrepreneurial opportunities (McGrath & MacMillan, 2000; Covin & Slevin, 2002). For the organization to develop these entrepreneurial capabilities it is argued that the importance of them need to be clearly stated by the organizational purpose (Ireland, Hitt, Sirmon, 2003).
Sirmon, 2003). Having an organizational purpose that allows entrepreneurship is important since it makes sure to continuously rejuvenate and change the organization’s scope to enhance its innovative capabilities (Ireland, Kuratko, & Morris, 2006). Recent research has even shown that there is a direct connection between the success of corporate entrepreneurial efforts and how the firm’s purpose is formulated (Fredberg & Pregmark, 2018). It is therefore interesting to research to which extent an organization's purpose actually allows for entrepreneurial activity and is something which will be addressed in this report.

2.3 Method

The below section presents the methodology of the study, including research design, data collection and data analysis.

2.3.1 Research design

Action-based research has been chosen as the primary research method for the study. According to Coghlan (2007), this research methodology allows for a deep organisational insight and provides for an opportunity to analyse corporate entrepreneurial ability and an organization's ability to change. Pettigrew (1990) agrees and suggests that qualitative action-based research is the best choice when studying phenomenons involving change.

![Figure 2 The process of the study](image)

Figure X above describes the process which the study followed. During the introduction basic knowledge regarding organizational change, culture and purpose as well as the companies current state was gained. Based on this knowledge, the design and research questions of the study was defined. In the next phase data was collected through a literature review, action research and interviews in order to get a deeper understanding of the research area and the companies. This led to a result which was later analyzed and discussed, which in turn ended in a conclusion.

2.3.2 Data collection

In order to gain deeper knowledge of entrepreneurial ability, organizational culture and organizational purpose a literature review was performed. Relevant literature regarding the subjects and the connections between them was searched through databases and libraries.
In order to study the organizational culture of the companies, Hofstede's (2011) six dimensions of culture was selected as the theoretical framework. Hofstede’s framework was selected due to being widely recognized among researchers and its extensiveness making it statistically significant. Based on action research, reflections from the daily work life and previous interviews gained from the Corporate Entrepreneurship project, the companies’ organizational culture was described and composed in regards to the six dimensions of culture. In order to evaluate the core purpose of the companies the company documents were examined. Moreover, at least ten employees of each company were interviewed shortly and asked to describe the core purpose according to them.

2.3.3 Data analysis

After the data collection the data received was analyzed. The data retrieved from the companies was compared to the literature review in order to evaluate if there were any connections between the two.

Based on the data regarding the organizational culture, the culture of the companies were analyzed and mapped out on a scale, measuring the six dimensions of culture. The scale included three categories: “the company shows more aspects of parameter one”, “the company indicates the aspects of both parameters”, “the company shows more aspects of parameter two” on dimensions one to six. Possible parallels between the organizational culture and the companies entrepreneurial ability were discussed.

In order to evaluate the core purposes effect on the entrepreneurial ability the data gathered from the literature review was analyzed. Moreover, the companies stated core purposes were evaluated to discover to what extent entrepreneurial ability was encouraged. The stated core purpose was then compared to what the employees believed the purpose of the company was, in order to see if the beliefs were synchronized.

2.4 Result

This section presents the result, starting with the findings of the culture and lastly the findings of the purpose.

2.4.1 Culture

Below the cultures at the different companies are presented according to the six dimensions of culture by Hofstede.

**Job vs. Employee orientation**

When studying the cultural dimension of job vs. employee orientation, a mixed result was discovered. Two of the companies, Case B and Case E, were considered to be job oriented. These companies were focused on the performance of each job and the different departments were clearly divided, rather than focusing on the general well-being of the employees. Case A and Case F also had some tendencies of being job oriented, in terms of putting a lot of emphasis in financial results. However, these companies also had some traits of being employee oriented in
the sense of being work-life balanced, and focusing on the growth of the employees. For example each employee had a personal business plan, free fruit were available in the office and employee benefits, such as exercising and the possibility to loan a boat existed. Therefore, Case A and Case F is considered to be between the two parameters. Lastly, Case C and Case D highly demonstrated characteristics of being employee oriented. Work were structured around the employee rather than the task at hand, and recruitment valued the personal traits of the individual rather than what skills was listed on the CV. Moreover, both companies were strongly focused on motivating each employee and creating intrinsic incentives

**Professional vs. Parochial orientation**

Three of the companies, Case A, Case B and Case E, had a professional culture. At these companies the employees felt strongly connected to their role and title. For example the engineers identified as mechanical engineers or electrical engineers, rather than employees at the company. Moreover, the employees at Case A, Case B Case E had a clear distinction between job and private life. At the parochial cultured companies, Case F and Case C, the employees valued their title less and took great pride in working at their company. Moreover, in some cases the employees tended to be working with something considered to be their hobby. One of the companies, Case D, showed signs of both orientations. At this company the employees with leading positions often had a parochial approach, since they represented something more than themselves.

**Tight vs. Loose control**

Half of the companies, Case B, Case E and Case F, were considered to have a tight control. Even though the employees had the freedom to plan their own work, the organizations were experienced as rather bureaucratic which in turned led to s high sense of being controlled. For example the processes and budgets were tightly controlled and there was a high focus on reducing costs. Case C and Case D, on the other hand, had a loosely controlled environment with a high degree of freedom and flexibility. There are very few control systems in place and instead the responsibility is based on trust. A common factor for Case E and Case B is that both are small, with less than 200 employees. Lastly, one company, Case A, was evaluated to be in the middle of the two parameters, since it showed signs of both orientations.

**Pragmatic vs. Normative**

Three of the companies, Case A, Case B and Case E, demonstrated signs of being normative. They are internally driven and believe they know what the customers want. For example Case E stated that they often steer their customer into a solution that fits themselves the best, rather than actually finding out the true needs of the customer. Case F historically shared a lot of the traits of a normative culture mentioned above, but has recently started to take a more customer-centric approach by interacting with customers in early development phases. Therefore, Case F is considered to be in the middle of the two parameters. Case C and Case D are strongly value driven and have an inside-out approach. For instance, Case C states that as long as the employee can show that their idea provides customer-value, they are allowed to continue working with it. Moreover, both companies consider themselves to have the flexibility to meet changing customer needs. Therefore, Case C and Case D are considered to be pragmatic organizations.
Process vs. Result orientation

Two of the companies, Case B and Case E, mostly showed traits of being process oriented. At these companies, following processes is highly valued and if trying to create value in another way you will be met by resistance. The processes are seen as a tool to minimize risk, which makes employees afraid of taking decisions outside of these processes. Case A, Case D and Case F shared some of the traits of being processes oriented as well, however, also had some characteristics connected to being result oriented. For example measuring results was emphasized and reaching the goal was more prioritized than how the job was performed. Therefore, Case A, Case D and Case F are considered to be in the middle of the two dimensions. Only one company, Case C, was considered to have solely a result focus. This was evident by that very few processes existed and how the job was done did not matter as long as results were delivered.

Open vs. Closed systems

Case B and Case E had very little collaboration or partnerships with external parties and are therefore, considered to have a closed culture. For example, Case E stated that one supplier had tried to invest in a closer relationship by business development events but were turned down. Moreover, both of the companies cultures were believed difficult to become a part of as an outsider. Half of the companies, Case A, Case C and Case D have an open culture. These companies have a lot of collaborations with universities, startups and customers to mention a few. Moreover, the culture is very welcoming to new people in general. Case F showed signs of being both open and closed. They historically preferred to develop products internally with few external collaborations. However, they have now moved more towards being open.

2.4.2 Purpose

When studying the companies core purposes, it was discovered that only two mentioned something relating to entrepreneurship. The purpose of both Case A and Case D involved innovation as the main foundation. However, none of the other companies, Case B, Case, C, Case E nor Case F, mentioned entrepreneurship in their purpose. On the other hand, Case C mentions value creation, which can indicate that entrepreneurship is involved.

When asking the employees what they believed the purpose of the company was, some misalignments were found. Particularly at Case A employees were unaware of what their purpose was. Also at Case C there were some confusion about the purpose, and apart from the management employees did not know what the future goals of the company was. The reason for the confusion at Case A and Case C is believed to be due to the purpose being to broad and unclear. For the rest of the companies, Case B, Case D, Case E and Case F, most employees had a fairly well understanding of the company purpose.

When it comes to how well the purpose was actually anchored in the company actions, none of the purposes were believed to be fully anchored. Both Case D and Case F had fairly new purposes that were very long-term goals, which made it difficult to live up to today. However, it was believed that Case F could be anchoring their actions a lot more than they currently do. For example, there are no milestones or deadlines on when or how they should reach their targets. Therefore, a lot the employees believed the purpose credibility was quite questionable. Some of the companies, like Case A, Case B, Case C had quite broad purposes, and therefore it could be argued that most of the actions contributed to the purpose.
2.5 Discussion and conclusion

This chapter presents the analysis of the empirical findings, and draws several important conclusions regarding the common enablers and barriers of corporate entrepreneurial ability from the perspective of corporate culture and purpose. The research questions are answered by analysing the findings through the literature. Finally, the framework for measuring corporate entrepreneurial ability is presented.

2.5.1 Common enablers

The study has identified several aspects of corporate core purpose and culture as the main catalysts for corporate entrepreneurial projects. These factors are essential to get familiar with and utilise for the intrapreneurs, and anyone, willing to improve corporate entrepreneurial ability of their firms.

**Employee orientation**

In Cases B and E the culture which were experienced was more job oriented than employee oriented. The employees in these cases experienced a lack of professional freedom enabling them to focus on innovation. Employees were in these cases assigned specific functional roles within their respective organization and was measured on the performance of tasks closely related to that role. Recruiting to the company described in Case B were also very functional. The employees in these cases had a hard time fitting in the possibility of doing more innovative work in their job, both due to a lack of time to do so but also due to a difficulty of allowing work not directly related to their actual job description. Since entrepreneurial efforts in its essence is the creation of something new, it is intuitive to think that one needs to be encouraged to do more than ones specific tasks. In an organization where the entrepreneurial intensity is high, great value is placed on viewing change and its following uncertainty as business opportunities and the performance that need to be measured is thus the collective rather than the individual (Ireland, Kuratko., Morris, 2006).

If a company wants to develop an entrepreneurial culture, failures and mistakes can not be punished but must rather be rewarded (Hisrich, 2016). This strongly indicate that an organizational culture need to take a more holistic view when it comes to developing its entrepreneurial capabilities, and thus measure its employees on more than their job performance, which is also supported by the empirical findings of this report. At the same time one can argue that this depend on what individual performance that is actually measured. If an employee was to be evaluated on his or her entrepreneurial performance, such as the quality and frequency of new actionable ideas and long term performance, this would arguably raise the entrepreneurial capabilities of the organization as well (Hisrich, 2016). Similarly, in the Cases A and C, where the entrepreneurial ability was considered higher, more emphasis was put on creating the right collective requisites rather than optimizing the work of each job description. The recruitment processes in these cases, especially for Case C, were also more focused on finding employees with the right attitude instead of people with very specific skills.

**Pragmatic orientation**

In the cases were a more pragmatic approach to the business was used, higher entrepreneurial ability was experienced. In Case D the company considered themselves very value driven and customer centric. This opened up the possibility for them to be more adaptive to changes in customer demand and thus more innovative. Being value driven also opened up the vision and
mission of the company for interpretation. This allowed for a more diverse set of activities which in turn continuously generated new ideas related to how to organize themselves and what to offer to their customers. It even allowed the company in Case D to question who their customer was and how they through innovation could accommodate a wider target group. According to several studies, the ability to actually be customer oriented is one of the most important factors when creating an entrepreneurial culture (Jamrog et al., 2006; Martins and Terblanche, 2003; Tushman and O’Reilly, 1996). Tushman and O’Reilly (1996) emphasizes the need of staying close to the market and quickly being able to respond to changed market needs. This in turns stimulate creativity and innovation. Moreover, organizations should not rely on current customer feedback too much, since they may not be aware of the future technological possibilities (Jamrog et al., 2006). Therefore, Danneels (2004) emphasizes the importance of focusing on latent customer needs. Organizations that are overly focused on current customer feedback risk missing out on expanding to new markets, technologies and customers (Jamrog et al., 2006).

Contrastingly, considering instead Case B, were a complex supply chain has forced them to become more normative the entrepreneurial ability were also considered lower. The organizational focus in Case B has always been on perfecting current operations, not leaving any room for innovative efforts or being flexible toward changing customer demands. Flexible organizations with fewer procedures and standards regarding the customer orientation often has a greater chance of reacting to new customer demands. Moreover, an externally focused company experience the competitiveness of other organizations to an larger extent, which creates pressures to improve and develop new products (Martins and Terblanche, 2003). In almost all cases (A, B, D, E and F) the research revealed a desire to apply a more pragmatic approach in order to increase the entrepreneurial ability of the focal company.

However, studies also show that having a completely pragmatic approach is not always the best solution (Jamrog et al., 2006). For example, procedures are to some extent necessary in order to assure safety and quality (Martins and Terblanche, 2003). The research also revealed this in Case C, where the company emphasised a pragmatic approach, the employees lacked a structured for how to appreciate and utilize that pragmatism. This instead led to a feeling of confusion hindering entrepreneurial initiatives in the company. Interestingly this also connects the two orientations pragmatic and process indicating that the more pragmatic you are the less process oriented you are. This also aligns with the findings in Case B, where the research concluded both a normative and process oriented approach. So even though a pragmatic approach in general is considered to create better requisites for entrepreneurial activity, the research concludes that some more normative factors can not be entirely eliminated.

**Organizational Openness**

Something which surfaced as an important factor for enabling entrepreneurial efforts in the researched cases was the level of openness adopted by the company. Both in terms of openness toward external entities through collaborations or partnerships and openness between different internal entities such as different departments or different companies within the same conglomerate. Although triggers for corporate entrepreneurship can exist both internally and externally, an open system allows for better insight into developing opportunities (Ireland, Kuratko, Morris, 2006). In Case F it was believed that the entrepreneurial ability could be increased through increasing the transparency between the department focusing on exploiting the current business model and the department focusing more on exploring new opportunities and new business models. Even though the more closed approach wasn’t considered by the
researchers to be directly damaging for their entrepreneurial ability a more open internal communication was considered beneficial.

Hisrich (2016) states that for entrepreneurial initiatives to be successful one needs to recognize also the importance of the external environment. This is supported by findings in all cases, where increased openness toward collaboration and partnerships with external entities were positively correlated to the perceived entrepreneurial ability. In Case E, for example, a case where the entrepreneurial ability was considered low, strategic partnerships proposed by both suppliers and customers were frequently turned down. Similarly, Case B did not show any signs of being involved in collaborations or partnerships and was also perceived as a company with lower entrepreneurial ability. On the other hand, in Cases A, C and D an openness toward collaborating with external parties was a part of the overall strategy of the company. These were also the cases where the entrepreneurial ability was perceived to be greater. This strongly indicates that an organizational culture, emphasising openness, both external and internal, is better set up for capturing new business opportunities. However, considering again Case B, an internal openness in their case was seen as an effort to create a trust between different entities in the company. The trust in turn generated better requisites for increasing the entrepreneurial ability. This poses an interesting connection and something which would need to be further investigated for significance.

The relation between parochial cultures and core purpose

As indicated by Fredberg & Pregmark (2018) a purpose which allows, or even encourages, entrepreneurial efforts are considered to create better requisites for organizational rejuvenation. However, it is of course crucial that the stated purpose of an organization is interpreted correctly by its employees. During this research a connection between a parochially oriented culture and the ability for employees to interpret the meaning of the organizational purpose was discovered. In parochially oriented organizations the employees identify more with the organization than their specific profession (Hofstede, 2012). The researched cases shows that this in turn makes the employees more inclined to identify themselves with the organizational purpose. This indicates that in organizations with a more parochial orientation it is also more important to adopt a purpose which allows entrepreneurial activity since it to a greater extent affects the actions of the employees. In Case D for example, where the organization experiences a strong parochial tendency, there is also a common clarity regarding what the organization is supposed to do and why they exist. Another aspect relevant to bring forward from Case D is that their stated purpose strikes a balance between being abstract enough to accommodate entrepreneurial activity and being narrow enough so as to provide guidance for the organization’s employees. Considering instead Case B, where the stated purpose manage to strike that same balance but where the cultural tendency is more professional, it can be argued that for a stated purpose to truly allow entrepreneurial activity the culture must also be more parochially inclined. Which of these two factors that has the strongest significance on the entrepreneurial ability is not covered by the research but poses an interesting issue for future research.

Purpose of a Purpose

When researching what effect the organizational purpose has in the different cases, one thing they all have in common is that it allows for internal questioning of decisions. If actions are being taken which are not considered aligned with the purpose it can act as a foundation for critique. In Case F for example, the organizational purpose strongly indicates a focus on sustainability. However, that indicated focus on sustainability is not manifested in the decisions or actions taken by neither managers nor employees in general. This has enabled the explorative
unit of the company to create a platform of reasoning around entrepreneurial initiatives aimed toward actually increasing the level of sustainability. Also in Case B the purpose acts as guidance in decision making and the balance mentioned in the previous segment allows managers in that organization to easily question decisions or actions which doesn’t align with that purpose. However, if the purpose itself does not encourage entrepreneurial activity in some form the questioning of it will not necessarily lead to increased entrepreneurial ability.

2.5.2 Common barriers

This research has shown, that several elements of corporate culture serve as consequential blockers on companies’ way of becoming more entrepreneurial. Moreover, it was found, that even though the purpose can be used to advocate the realisation of intrapreneurial projects, in some cases it, on the contrary, hinders the realisation of a firm’s entrepreneurial ability.

**Tight control**

The case study has shown that tight control was seen as one of the most influential boulders for three out of six studied cases. The entrepreneurs in tightly controlled companies felt restricted in their actions, occasionally also annoyed and demotivated by having several organizational layers to account for and convince. In some cases the tight control was manifested in micromanagement and even generated a sense of being manipulated. When studying the correlation between the level of control and entrepreneurial ability of an organization, many researchers conclude that the control of traditional organizations needs to be loosened in order for innovation to thrive. As has been seen in Case B, where tightly controlled exploratory unit was struggling with deploying intrapreneurial initiatives due to several layers of bureaucracy in terms of accountability. According to Ireland et al. (2006) few managerial levels and a decentralized structure nurtures the entrepreneurial ability of an organization. This organizational structure allows for horizontal interactions between employees which leads to idea and knowledge sharing, two factors believed to be crucial for innovation (Ireland et al., 2006; Jamrog et al., 2006). Moreover, Tushman and O’Reilly (1996) agrees, and argues that centralized bureaucratic control is one of the most common barriers to corporate entrepreneurship.

This is supported by the empirical findings of this report as well. In the companies with more loose control (Case C and Case D), corporate entrepreneurial projects have advanced much further. Additionally, the respondents of Case A, where the employees experienced loose control on lower executive levels, and where employees were given full autonomy in their daily business, while still being centrally controlled when taking big decisions, have expressed that such freedom positively affected their motivation. Tushman and O’Reilly (1996) also states that a high degree of autonomy of the employees is common in innovative cultures, however also emphasizes the importance of accountability. Jamrog et al. (2006) argues that accountability is important, however it should not lead to fear of risk-taking and failure. An innovative culture stress that risk-taking and failure is part of learning and growth. The employees of Case A, being loosely controlled, have also shown high creativity, since they have submitted over 800 ideas into the company’s innovation database. This, according to Jamrog et al. (2006), can be a result of loosened managerial process.

In order for creativity to flourish there must also be some resource slack and budget flexibility (Ireland et al., 2006). If having too tight resources availability the employers have to waste time
and energy seeking resources elsewhere, which hinders innovation (McLean, 2005). This has been experienced by corporate entrepreneurs in Case B and Case F. However, McLean (2005) argues that having too much resources reduces motivation and creativity, and therefore suggest having a balanced resource availability.

**Professionally oriented culture**

Another significant obstacle has been found to be hidden within professionally oriented firms. At four out of six cases, entrepreneurs have experienced how the projects stuttered because the majority of the colleagues took more pride in taking a specific position, rather than being part of the firm per se. For instance, in Case E, where the employee put huge weight on the actual job title, they have also shown less commitment and motivation to be involved in intrapreneurial projects, and drew a clear distinction between the job and the private life. In Cases E and B, the employees have also shown much more passion towards their job, which constituted their hobby and reflected the personal interest, than towards working together on achieving the common goal of the company. This goes in line with Hofstede’s (1991) findings, that in parochial cultures, employees see their employment as a continuation of their private life and themselves and they are more invested and motivated to contribute in their organizational role. This trust towards the employer organization, makes employees of a professional culture not look very far into the future, as they assume that the organization will do so.

In Cases C and F, where a more parochial culture was deployed, the employees were noticed to be more engaged in innovation related activities, which could possibly be the reason of improved innovation performance. Case A can be seen as an example of a company, where the elements of both: parochial and professional culture was present. In this company the employees could demonstrate their ability to think far ahead, and bring in key technical expertise into the company. These sides of professional orientation positively affect entrepreneurial ability, since according to Ahmed (1998), innovation and deep technological understanding are dependant on skills and knowledge in specific fields, especially for radical innovation. Furthermore, the employees of this company did not feel completely separated from the company, were able to engage in the team work and saw their job as a continuation of their private life. These are the elements of the parochial orientation which, as prior researched by Pfleging and Zetlin (2006) conclude, positively contributing to creating a good innovative climate. Conclusively, the company should aim to have the balance between parochial and professional, as this balance indicates the culture, which affects corporate entrepreneurial ability in the best way (Weggeman, 2007).

**Processes dependence**

Peremptory process orientation has been hindering entrepreneurial projects in Cases A, B, E, F and to some extent in Case D. In these companies, the entrepreneurs found it very hard to implement their projects, mainly because of risk-avoidant managers and profit oriented KPIs. They also struggled a lot with having to abide to linear, non-iterative waterfall processes, that did not include iterations, customer interactions and pivot. While in Case C, with more result oriented culture, the employees were feeling quite comfortable when dealing with uncertainty. They have also been defined as fully committed, investing maximal effort, and trying to bring in new challenges each day.
In Case C and D, the culture was more focused on goals, rather than on different processes of achieving them. The employees in these companies were able to act upon their ideas freely, thus had high levels of freedom and autonomy. Not having to deal with inflexible processes, the projects in these companies managed to develop quite far and reach the proof-of-concept stage. Not being process dependant, according to Carayannis and Chanaron (2007) and Ahmed (1998) is beneficial when working with innovation, as is innovation and corporate entrepreneurship are often characterised by high levels of uncertainty, which most of the traditional corporate processes are incapable of handling (Walrave, 2010). Traditional planning and process focus take a lot of time, so for dealing with uncertainty, results oriented culture is more prominent. Lastly, result oriented culture is accompanied with risk taking and taking up challenging tasks. This once again testifies that goal oriented cultures are better suited for innovation and corporate entrepreneurship development and support, as high levels of challenge and involvement imply that people are intrinsically motivated and committed to innovate (Bessant, Tidd, 2007).

**Too broad purpose statement**

The research of Fredberg and Pregmark (2018) have presented evidence of a strong connection between the success of corporate entrepreneurial projects and firm’s corporate purpose. This research has further contributed to their findings, and as stated above - the purpose can be used to open up for innovation activity, and serve as a discussion base, allowing the employees to question innovation ambition and company’s strategic intent.

However, while the majority of the entrepreneurs in most cases used the purpose to justify their intrapreneurial ventures, some have seen that having a too broadly stated purpose can result in confusion. Furthermore, it can create a situation in the companies where they find themselves have too many ideas in the enhancement or testing phase, since all the idea initiators were able to justify their projects by a too broad company purpose. This situation was clearly present in Case C, where core purpose was vaguely formulated around three abstract concepts. The purpose was applied in the company’s decision making on a daily basis and used in justifying the further development of innovative projects. This resulted in engineers having too many projects they were involved in, resulting in demotivation, engineers feeling stressed, and locked in a tunnel vision not wanting to commit to more projects.

Having too broad purpose was found to have another negative implication. In Cases B and C, as alignment with purpose failed to serve as filtering mechanism, the filtering and new ideas evaluation functions laid solely on the top management. As a consequences of such biased and subjective decision making process, many good ideas got terminated for no reason, while the others got permission purely because “it was fun”.

**Anchoring the core purpose**

It is important for companies to have a purpose which allows entrepreneurship, since it is important to makes sure that it allows to continuously rejuvenate and change the organization’s scope to enhance its innovative capabilities (Ireland, Kuratko, & Morris, 2006). The majority of the researched companies had well-formulated purposes that set them up well for innovation. However, in four out of six companies, the employees struggled with utilising the purpose when working with innovation and when justifying their corporate ventures. Instead it created confusion and misalignment. In Case A, the employees felt confused and rather unmotivated. Since a highly innovative purpose did not match with regular R&D activities, those were instead prioritised and pushed in their business as usual agendas. In Case F, internal frustration and
retention to innovation activities was caused due to the fact that employees did not share new strategic commitment stated in the core purpose as an ambition to be more sustainable. The gap between the core business and the future desired state, forced by the new purpose, was too big to comprehend. Moreover, the management did not change any key activities nor processes, in order to set the purpose in practice. Similar confusions were also detected in Cases B and E. There highly innovative and customer oriented company purpose statements failed to be shared by the line engineers. These were instead left alone without any managerial support or further explanations on the crossroad between what the company is today and the radical future vision of the firm. In the other two cases, where the company purpose was more anchored within the organization, employees appeared to be more prone to working with innovation. The conclusion is, therefore, that it is not enough to have well formulated core purpose. It needs to be anchored deeply in the organization, so that employees can understand and commit to it in their exploitative and especially explorative work.

2.5.3 Conclusion and implications for intrapreneurs

This study was initiated with the aim to answer two research questions of how the organizational culture influence its entrepreneurial ability, and how the actual core purpose of an organization encourage entrepreneurial ability. It has been found that both organizational culture and well-formulated company purpose can influence corporate entrepreneurial ability to a certain extent.

Several elements of company culture foster intrapreneurship. These elements include employee orientation over job orientation; being pragmatic rather than normative; having a high degree of openness and trust; and having the purpose, which opens up for innovation by the way it is formulated and anchored. At the same time, a list of culture elements were found to seriously hinder firm’s development of entrepreneurial ability. Among them are listed tight control; professional orientation, progress dependence; and a too broad company purpose.

Additionally, one of the goals of this study was to to build a framework, a tool, to evaluate corporate entrepreneurial ability, through its connection with six dimensions of company culture by Hofstede. To be able to do it, the authors connected the culture dimensions with various parameters and definitions of corporate entrepreneurial ability. These connections have been found, and are presented in Figure 2 below.
2.5.4 Contribution to theory

This study contributes to the previous research by multiple ways. Mainly this study, having resulted in the creation of applied framework of evaluating company’s entrepreneurial ability through the dimensions of culture, has proven theoretically and empirically the correlation between different dimensions of corporate culture from Hofstede’s framework (2011) and the entrepreneurial ability of the company. Secondly, the study has proven the existence of a tight connection between parochial orientation and anchoring the core purpose. This knowledge should open up for the further research, aimed at deepening the understanding of how culture connects with firm’s entrepreneurial ability, and whether company purpose contributes to its innovativeness.

Lastly, this research contributes to the applied side of corporate entrepreneurship, as several important practical implications for intrapreneurs have been drawn. Among them, the enablers for corporate entrepreneurship projects have been outlined. Using these should help intrapreneurs in succeeding with their ventures. Furthermore, knowing the possible blockers to these projects, should help intrapreneurs to develop and adopt strategies to avoid them well in advance.

2.6 References


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3 Entrepreneurial Sales

Jon Jaleby, Emelie Ottosson and Dilan Ustunyagiz

3.1 Introduction

Running projects and leading new initiatives within mid and large corporations are complex tasks with great demands on the leaders and managers. Regardless of the idea’s potential of creating value within the company or for the core business, the idea needs to have acceptance and support. Far too many ideas have throughout the years been killed based on basic principles of people being offended or scared. People are simple and even though managers are hired to see to the company's best interest and continued growth, structure and protecting one's own turf is many times closer to heart than giving an objective answer. On top of this layer, there are people's personalities playing a crucial role in how e.g. managers accept or supports a new project idea.

Gartner’s model for different stakeholder personalities describe the importance of mapping the people you have around you, both beside you and above you (Adamson, Dixon & Toman, 2012). As pointed out in this model, every company or project will be surrounded by Mobilizers, Talkers and Blockers. The nature of each category is rather self explanatory but nevertheless crucial to understand how and why you need to have a good relationship with each and every one of them. On top of this the prosocial theory states that people are often willing to help but grounded in different types of motives (Batson, Ahmad, Powell & Stocks, 2008). With this in mind, it is interesting to understand the motivating factor behind someone’s motive to help one out and playing this well, one can truly become efficient in entrepreneurial activities.

Understanding relationships and the principle of two people getting along are far too complex and philosophical for this paper, but instead the intention is to understand how you can strategically build relationships to foster projects. Networking have for long time been considered to be a vital part of a manager's success within a company. It is however hard to understand and justify time enough to analyze who one should approach to get the right people in order to foster a project especially when you try to understand how deep the relationship need to be. In this context at deep relationship is referred to be having great trust and closeness between the partners. With this research the intention is to investigate if there is a possibility to strategically plan and build relationships hence give the activity of networking a more quantifiably ground for action.

3.1.1 Research questions

- How to plan and methodically build deep relationships that fosters and benefits corporate entrepreneurship projects?

3.1.2 Key Terms

- Interpersonal relationship
- Formal network
- Relationship building
- Sales enablement
3.1.3 Limitations

This study has taken place in the context of six different master thesis projects at different types of companies both in size, industry and organizational structure. Due to the timeframe and company differences, the study is not able to analytically analyze exactly how the context of each data set (each project team produces its own data set) affects the outcome of the answers. Instead a more pragmatic focus is held to answer the research questions at hand not to risk and fall of the main target.

Parallel to this study, each member of this study have other obligations to do which creates a questions of time management. Due to this, the scope limitation of only one external and one internal at each company was put in place to eliminate the risk of putting too much workload to an each project. To enable good data to be evaluated it is prefered to have a reasonable workload rather than a too much that only makes it half done.

3.2 Theoretical Framework & Utilization of Theory in Research

The aim of the following theoretical section is to be able to base the foundation of what is aimed to be researched and what should be expected for relevant sub-issues that had been already studied. By linking the research question with theoretical background, it is aimed to build a robust research which at the end supports more meticulous hypothesizing process as well as more factual and solid research results.

In this section, theories that are found relevant with relationship building in corporate structures to be able foster the projects, are explained and the link between the theories and what is aimed with the research is described to be able to give readers more clear perspective and reasoning.

3.2.1 The Stakeholder Theory

Especially in the execute level where the uncertainty is high and decision making is crucial, traditional strategic frameworks are unable to help leaders to set the organization's direction accordingly especially in the fast-moving industries. (Freeman & McVea, 2001)

The Stakeholder Theory, that had been highly influenced by the works of Stanford Research Institute (currently SRI International) is mainly emerged with the publication of *Strategic Management - A Stakeholder Approach* by Freeman in 19s and it is a strategic tool that focuses on building a strategic framework in corporate settings via considering different stakeholders and their interest to be able to leverage the power of stakeholders.

*Utilization of The Stakeholder Theory in our research*

As SRI International argues, managers need to understand different needs of the stakeholders (employees, customers, suppliers and so on) to be able to create an objective and strategy that serves to everyone so that getting a support from different stakeholders would be inevitable which means success in the long run. (Freeman & McVea, 2001)

When trying to build a relationship in corporate settings to foster one's own ideas, the stakeholder theory also comes as an essential tool. To be able to get the support needed for an idea to be sponsored and implemented, support from the key players in the organizations is the main prerequisite, and for different stakeholders to support the idea, idea provider needs to be able to communicate what kind of value the idea provides for different stakeholders with different needs, which also shows the quality of the idea/project.
3.2.2 Decision Making Unit (DMU)

Organizational purchase processes include a group of people rather than a single person and the term decision making unit, also named as buying centre, coined by Robinson, Farris and Wind (1967 cited by Moriarty & Bateson, 1982, p. 182) describes people and/or organizational units that are involved in those processes. In early 2000, Kotler and Armstrong (2013) divided decision making unit to five parts to describe different attributes that are involved in major organizational buying purchases and analyzed informal network, decision flow between those units in the corporations. Five different units that are involved in major organizational buying processes includes: users, influencers, gatekeepers, deciders and buyers.

**Users**
Users are the people or organizational units that use the purchased product. Depending on the organization, they might not be able to contribute to the final buying decision. However, they are generally the ones that initiate buying process and define needs.

**Influencers**
Influencers are the people or organizational units that have eligible knowledge regarding the potential purchases. Thus, they contribute to the evaluation of different options throughout the buying process. They are either technical people / departments or people with self interest about the product / service.

**Gatekeepers**
Gatekeepers are the ones that are responsible to decrease and direct the traffic and information flow in the organizations. They are generally initial contacts that sales people get in touch with such as secretaries, receptionists, purchasing departments and such. If an organization has a specific purchasing department, that department might also act as a gatekeeper and limit sales representatives’ direct reach to the end users or decision makers in the organization. Gatekeepers can act as sponsors or blockers as well that they have a strategically important positioning in the organizations.

**Deciders / Decision Makers**
Deciders are the ones that makes the final yes / no decision regarding what to buy / not buy. Those are generally senior level people who mainly makes the decision based on the opinions of people around them (influencers and other reference people). In practicality, decision makers do the buying as well.

**Buyers / Purchasers**
Rather than deciding what to buy, buyers are generally responsible to do the purchasing itself and managing the details of the purchase such as negotiations, term of purchase and so on. In practicality, they are generally closely involved in decision making process itself as well.

Although the term, decision making unit, and the idea behind it have been used practically in the industry, it has been hard to do a deep research about the term due to fact that doing a behavioral analysis with multi-dynamics in it is challenging and very much context dependent (Moriarty & Bateson, 1982). Thus, when analyzing the units in decision making unit, there are a lot of different interpretations. In addition to Kotler at al’s (2013) five main units, sponsors, blockers and mentors are also widely accepted and practical categorization of the types involved in buying processes.

**Mentors** are people that supports you and give guidance throughout the process and
**sponsors** are the mentors who are involved in decision making processes (Sterling Chase, 2010)

Weinstein (2014) divides **blockers** into three categories. One type of blockers are essentially skeptics that have not found what is in for them to cooperate and say yes. It is important to communicate with skeptics with their own language and explain the advantages through their perspective as Weinstein suggests. Another type of blockers are the influencers with a knowledge within the industry but no decision making power that they use blocking as a way of showing their power to get respect. And the last type of blockers are traditionals who want to keep the status quo. As well as clear communication with blockers to explain what is in it for them, having allies, mentors and sponsors also help to build trust and neutralize blockers, skeptics.

**Utilization of Decision Making Unit (DMU) in our research**

Decision making unit theory helps us to understand positioning of people and organizational units through the sales process and decision flow between them. That enables us to understand and differentiate different drivers of people and focus on setting our expectations accordingly and utilizing what our project can get from each person. As well as external purchasing and sales projects, decision making unit theory is a practical and crucial tool also for corporate entrepreneurs who wants to pursue her / his idea internally. Analyzing who influences which decision in the organization to what degree and how things are evaluated helps corporate entrepreneur to communicate the idea in the best possible way according to whom she / he is speaking to (Bonoma, 2015) that all decision flow can be turned into an enabler.

As Moriarty & Bateson points out, behavioral analysis is very much context dependent and hard to do the exact separations that it should not be forgotten that each decision making unit might correspond to more than one person / unit and also same person / unit can carry more than one decision making unit characteristics. Besides, it is usual to see the same people / units acting with different decision units characteristics depending on the context they are in. Last but not least, it should be considered that it is usual to see some people claiming to be involved in one of the decision making units, whereas they are not, such as self-claimed decision makers with no decision making power in reality. (Derum, 2019)

How to utilize each and every kind of decision making units and deciding who to talk to and when can be explained through the customer decision process that Rackham (1989) categorizes. Rackham divides customer decision process into four categories: recognition of needs, evaluation of options, resolution of concerns and implementation, first four of which will be analyzed below under decision making unit perspective.

**Recognition of Needs:** As all purchase and sales processes, the process starts with the recognition of a problem and a solution. Independent from being an external sales person or a corporate entrepreneur who is trying to sell an idea internally, if there is no current recognition of a problem that is claimed to be solved, recognition should be created as a first essential step. Then it should analyzed if it is really a problem and even it is, how big of a problem it is. At this step, close communication with the **users** that are aimed to create a product / service for is important to get answers for the questions, understand the real issue and shape the idea / project accordingly. While still developing the solution / idea, utilizing **blockers, skeptics** by understanding their doubts would also help to build a better case, solution. As Mouw (2013) mentions, blockers and skeptics help to avoid big mistakes. However, once the idea, solution is
developed and the sales process is on, blockers and skeptics are not to be utilized but to be neutralized.

Recognition of needs as being the first step, during this stage, it is mostly likely to face initial gatekeepers while trying to reach to the correct people. At this step, it is crucial to be clear about “what is in it for the other person” and one should not forget that gatekeepers possibly hold a lot of valuable information and contacts that should be utilized. (Derum, 2019)

**Evaluation of Options** is a step where customer, or organizations in corporate entrepreneurship perspective, recognizes the problem and start seeking a solution. At this step, needs and requirement are already set from the previous step that iterations of potential solutions should end and focus should be on what can be offered as a solution to buyers and how the solution can differentiate from other offers. This step is all about evaluating different options that influencers within the organizations contribute to a wide extend that tagging along with influencers is a good way for your solution to be heard within organizations.

**Resolution of Concerns** is the stage where the decision regarding what to buy, which idea to invest on is made and related negotiations are made. Decision makers and buyers are the main decision making units that are seen in this stage.

After the last step, implementation, buyers would like to see the results and value creation for a potential long term continuation of the project. Being able to carry the idea, project to the next level or testing different ideas/ projects in the future are highly dependent on providing what you promise and keeping the link you created with decision making units.

3.2.3 Interpersonal Relationship

Theories of interpersonal relationships study relationships between people that are influenced by different themes (love, business interactions, support and so on) and in different contexts (family, work, friendship and so on). As Reis, Aron, Clark & Finkel (2013) states, relationships are the backbone of the life and how one utilize the relationships determines her / his lifelong success in terms of opportunities taken, challenges overcame and so on (2013). As well as personal relationships, when it comes to professional relationships, it is inevitable that the quality of the relationship affects the work done in professional environment.

In this paper, the focus is on how to build a professional relationship which is a kind of interpersonal relationship that is build in work environment. By using different theories that fall under interpersonal relationship, the aim is to give hands on scientific suggestions to foster the relationship building process in corporate environment.

Following, two main theories under interpersonal relationships are explained and in the last part, how to utilize the theories for the research is described to give more concrete link between the theories and the aim of the research.

**Equity Theory**

Equity Theory, which is one of the theories regarding interpersonal relationship, is focused on distribution of benefits and its importance in interpersonal relationships. It is theoretically described as following: to create the equity in relationships, Person A’s input over Person B’s
outcome should be equal to Person B’s input over Person A’s outcome. If there is in inequality, one of the individuals who interact tend to reduce the inequality. (2013)

**Social Exchange Theory**

Social exchange theory, a theory based on Homans’ work (1958) see social behavior as an exchange, give and take relationship and explains interpersonal relationships as a result of cost-benefit analysis. This utilitarian view claims that to be able to build a relationship there should be a benefit for both sides. (Cook & Rice, 2006) So far studied applications of social exchange theory in business environment mainly focus on relationships between customers and seller, employer and employee.

*Utilization of Interpersonal Relationship Theories in our research*

Both equity and social exchange theory mainly argues the importance of give and take in relationships on the same base with different perspectives. While equity theory is built upon more mathematical base, social exchange theory is based upon more social and psychological values. Including professional relationships, any kind of communication should be mutual to be able to create a relationship. When trying to sell an idea, instead of creating a one way seller communication, it is crucial to understand receiver's drivers and communicate in a way that there is a mutual exchange.

3.2.4 Prosocial Behavior Theory

Prosocial behavior theory is studied to explain the underlying key reason behind people’s help and support acts towards others. According to Lewin, people's motives are the key reason for their help and support acts and those motives are the path for people to reach out their own goals. (1951, as cited in Batson et al, 2008) Those goals are categorized by Batson et al. (2008) under four different headlines: self-benefit (egoism), benefiting another individual (altruism), benefiting a group (collectivism), and upholding a moral principle (principlism). Most importantly, although everyone has different goals, they have different motives that drive them to reach out to those goals and even those goals and motives change by time, the path towards motives to goals through help and support acts remains (Batson et al, 2008).

*Utilization of Prosocial Behavior Theory in our research*

Although different goals indicate different underlying reasons for help and support activities, they all point out the fact that one motive or another, for egoistic reasons or more collectivist reasons, people tend to help and support others. Thus, when approaching people to communicate and get support, it should not be forgotten that people seek communication and having a chance to help.

3.3 Method

The course of action for this paper can be described in four stages. In the initial stage, knowledge was collected through literature. First, keywords were defined through different searches. The keywords that were found are interpersonal relationship, formal network, relationship building, decision making unit and sales enablement. Those words were thereafter used in searches to find relevant literature for the research topic. Most searches has been made on Chalmers Library’s search engine.

When this stage was completed, an empirical study was made at six companies together with the students in the Corporate entrepreneurship class of 2019. The empirical data was collected
through information from six different companies over a six months period in addition to a workshop that was hold. The teams that has collected the informations consists of students from Chalmers School of Entrepreneurship’s Corporate program. The teams consist of two people each, a total of twelve people. The companies were from various industries and in various sizes, from 100 employees to 2000 employees. To collect the data in a structured way, the teams were handed out an assignment to complete over a period of time. The assignment for the classmates was structured in two parts, a mission and a questionnaire (see appendix 1). The questionnaire included questions to prepare the mission and questions to evaluate the mission. In the preparation phase there were questions about which people they thought would be important for the project, and in the evaluation questionnaire there were questions about how they followed up the relationship and how and if it fostered their project. Workshops consisted of presentations from each company teams based on their questionnaire responses and followed by open discussions based on theoretical framework of the study. Later, the answers of these questions based analyzing how to methodically build deep and strong relationships that fosters and benefits corporate entrepreneurship projects. Second questionnaire were answered by the teams after six months from the first one was answered.

After the empirical data was collected, it was analysed to find answer for our research question. The analysis are divided into two parts. The first part is a company specific analysis regarding sales, meanwhile the other part is a cross-finding analysis regarding sales, comparing six companies working with sales. In the company specific analysis, the empirical data regarding sales has been analysed by each company team and compared with the previous research that has been done in the fields to be able to draw conclusions within each field. In the cross-findings analysis, after all the empirical data that was collected regarding sales from the six companies, it is analyzed and compared. The cross-findings analysis is partly made through comparing the first data collection that was made in the beginning of the project year and compare it to the second data collection that was made in the end of the project year. The second part is a comparison between the outcome from the companies to find similarities and differences as well as finding possible general conclusions.

The above explained method of the study was chosen accordingly, due to the reasoning that collecting data from different companies and comparing them is a good way of getting perspectives from companies in different industries. This is also a way to get new data into the research and compare and confirm it with already existing literature.

3.4 Findings

In this section the findings are presented around the following themes: which people were approached and the process of building the relationships.

3.4.1 Selection of internal and external persons

It is valuable to find out which contacts the project teams chose to approach at the first place to build a strategic relationship. Finding out that, also help to understand why the relationships were built as they were and which approach was used.

The persons that were chosen did not differ much between the companies, though it was a clear difference in what type of people that was chosen as internal versus external. The internal persons that were chosen were all managers. In common, they were the ones who were able to
mobilize resources for making things happen: such as people with formal and informal power, gatekeepers that could “make or break” the project, possible future sponsors and agents.

For the external persons, important parameters were different. Four out of six groups chose a person with competencies that did not exist within the company, a competencies corporate project owners needed to be able to proceed with the project. Such as a contact who is a researcher in an area that was crucial for the project, but new for the company. It was also people that was knowledgeable in the field, and had experiences. That could provide the team with contacts and valuable insights around how things work in that field. One of the teams stated “Since we aim to create a marketplace for foods grown from urban farming initiatives he has both the competencies and network that could help us succeed...What X has created previous to our project is a platform linking together aspiring urban farmers with people having unused space that could be used for farming. So he could basically help us close the loop.”

The other two groups chose a person that was a customer or a potential customer/collaborator to the company. One of the teams that chose a customer explained their thinking as follows “This would be the first step in starting the platform that we are building. This will firstly give us a boost in that we can actually do this, but also give us a lot of learnings about what we did good and less good, and how we should continue to develop the platform.” These persons were also chosen to create legitimacy for the projects. For example could the potential customer be used to show to the manager that “This is the first customer that is interested in joining the network we are creating”, to get the manager to realize that things were going forward and to create and urgency for the internal stakeholders.

3.4.2 Approaching the internal and external persons

In this section it will be stated how the teams approached to the internal and external people to create and sustain the relationships with a purpose of fostering and benefiting corporate entrepreneurship projects. Findings are based on the workshop, discussions and questionnaire responses.

The teams agreed on the importance of being both visionary but also well grounded when they communicate their projects. When doing that, it was added the importance of being honest and transparent. However, especially when trying to create a relationship with external people, being transparent was found as more problematic for the teams that worked in private organizations, as expected. One team stated that, working in the private organization, adding up with not having clear project scope early in the project year, they did not know if their external contact would end up as a collaborator or competitor. So it was needed to communicate in more formal ways to avoid any potential future problems. When it comes to being transparent with internal contacts, although it was expected to be naturally transparent, company culture was found to be an important decider. One team stated that due to the political tension, hierarchical company culture and the organizational structure, they were not able or allowed to communicate transparently even with some internal people, which pointed out the importance of knowing the politics of the organization.

Many teams added the importance of commitment and engagement as important dynamics to deepen the created the relationships. As well as showing the project progress to show your commitment to the project itself, committing to the relationship and being engaged with it are also important. That was done differently in different teams. Some teams choose to update their contacts on a regular base, set meeting often. Some chose to create less formal relationship and
found mutual hobbies or enjoyed coffee machine talk with their contacts and show that the values another person’s thoughts.

One team that had chosen a manager as their internal person found it really hard to get that person's time, and it occurred several times that the person did not showed up for meetings or cancelled them. Though, after some time this changed. The person started to understand that this project was something that was in line with the persons plans, and could gain the person's intentions. After this point, recurring meetings were set every second week, and doors were opened to both internal and external people. The team creating this relationship also started to understand how this person worked and liked and how this could be used in creating the relationship. “After some meetings with the person, we realized that he was always asking about a pen and papers so he could draw an explanation. After realizing this we always had a pen and paper ready when going to these meetings.”

Another perspective that had been raised in the data collection was the level of the relationship. It has been discussed whether it was better to keep it formal or less formal but more friendly while creating a relationship with people to foster and benefit corporate entrepreneurship projects. On this topic, one team stated that their most friendly relationship with one of their contacts created a challenge at the formal discussions. However, they stated that being friends with one of their contacts might have helped them figuring out organizational confusions and helped them steer their project better. But in general, most people were really helpful, and wanted to help, if the intentions were clear.

3.5 Analysis

Under the following chapter the findings from the different companies will be analysed in combination with theory that can be found in Research Question Sales.

3.5.1 Selecting internal and external persons

The persons that were chosen did not differ much between the companies, though it was a clear difference in what type of people that was chosen as internal versus external. The internal persons that were chosen were for all teams some type of manager. It was people that was able to mobilize resources to make things happen, people with formal and informal power, gatekeepers that could “make or break” the project, possible future sponsors and agents. This is in line with the Stakeholder theory (Freeman and McVea, 2001, p. 5) which concludes that to give the projects a good chance to be sponsored and implemented, support from key players in the organization is the main prerequisite.

To get an even more clear picture of the people that was chosen, each group got to map there internal and external person from the five Decision Making Units (later referred to as DMU) (Kotler, P. et al., 2013) together with mentors, sponsors (Sterling Chase, 2010) and blockers (Weinstein, 2014). The teams were then asked to divide green(internal) and red(external) dots in the different units. It was allowed to divide the dots and put for example two green dots in one unit and the third in another unit, since one person could potentially be two or two different units (see Appendix 1). Through the mapping, it was found that most of the chosen persons were influencers and deciders, but also sponsors, mentors and gatekeepers. Having in mind that all the internal persons chosen were managers, it is reasonable that the decider was a common role. The most common unit, influencers, could be explained by that
the managers were middle managers that have some decision making power, but mostly have to convince a manager above them. Sponsors, who also quite common, are mentors who are involved in the decision making processes (Sterling Chase, 2010). Mentors was equally common as sponsors and can be explained either by the need for help to navigate and make decisions in the projects carried by the students. Another explanation could be that the groups internal person was a person that gave a lot of support and guidance, and the attempt was to build a relationship that would give the project/students legitimacy through sponsorship.

3.5.2 Building strategic relationships

The external persons was mostly users and mentors, but also somewhat influencers and buyers. The users can most likely be explained by that two out of six groups chose customers as their external person. And, even if the DMUs are not developed for external parties, and only for the internal purchasing process, it is still possible to apply some of the thinking on this as well. The user is explained as the people or organizational units that use the purchased product (Kotler, P. et al., 2013). Depending on the organization, they might not be able to contribute to the final buying decision. However, users are generally the ones that define needs. Even if they might not have been able to contribute to the final buying decision in many of the projects carried out it was still considered applicable. The influencers can be interpreted in a similar way as the user. That the buyer got a couple of dots as well is probably more an error than something that is valid, and probably depends on how the groups that did this viewed their customer. The mentors could be seen as a bit surprising since most of the external persons were experts to build legitimacy. At the same time, many groups stressed the need for help and support which argues for the external to be a mentor as well, something that once again is supported by theory (Sterling Chase, 2010) even though they might not be directly sitting at the decision table.

All the teams agreed to have experienced what prosocial behavior theory states that people are motivated to help others. It could be whether this relationship helped them to reach their goals or it could also be intangible such as helping others, mentoring and so on (Batson et al., 2008). All the teams suggest that the first and one of the most crucial strategies when approaching people is to be clear about what is in it for the other person. Everyone has different prioritization based on who they are, what they are working with, which industry they are working in and so on. Majority of the teams, especially when initiating a new relationship, stated that they had been asked to clarify what is in it for the other person. Finding a common ground, stating what the other person can gain from the project is found crucial according to the findings, as well as according to the theory (Cook and Rice, 2006).

Another important focus that was found in the findings is the importance of communicating in others’ language when creating a relationship, as stakeholders and decision making unit theories suggests. To be able to do that, a one should understand what drives other person, which takes time especially in case of external relationship creation due to potential less common grounds. Hence, teams stated that it was more about iterating in the beginning of the project year, random meetings with many internal people and trying to find external people via their internal network. By the time the projects were scoped, it was more clear what type of help was needed. As decision making and stakeholder theories suggest, contacts were able to be utilized more through a structured approach, something that the student teams supported. One team stated that they changed the way they communicate with their contacts to get the most out of it: such as choosing to update the contacts constantly or occasionally based on what is needed for the project, in which ways the other person would like to involve and which decision making unit that person belongs to. One team stated that they started to bring a pen and paper to the meetings, since they figured out he always wanted to explain by drawing.
3.5.3 Professional relationships

In the findings between the different groups a structured formula was chosen where people tried to build legitimacy with the people who they approached through formal point of contact such as steering group meetings and involvement in the work processes. This is in line with *Equity theory* (Reis *et al*, 2013) where a relationship is built upon the principle that in order for a relationship to be established, Person A needs to be contributing as much as Person B to the relationship. Through the direct involvement of a new person/stakeholder in the project, building legitimacy is essentially trying to show why this person should be interested. It is a structural and pragmatic approach where you provoke curiosity and invite for engagement. The concept of exchange or that a relation need a transaction of some sort to be of value is furthermore supported by the more psychological theories of *social exchange theory* (Cook *et al* 2006).

What is contradictory to the principle of trying to find a way to contribute to a relationship is the concept of *prosocial theory*, which claims that people by nature are willing to help without the direct linkage to an equal contribution (Lewin, 2008). In this research the underlying reasons behind why people want to help are examined, and even though there are multiple different motives, for example gaining their own strategy, the fact remains that people like to help. By studying the approach many of the corporate entrepreneurs had in this study, the informal part of their relationship building was a substantial part. This seems to be a common practice of getting around in a company and a necessary part of building relationships.

Based on the findings, a clear commitment towards informal engagement internally was shown in order to build a network internally. Through various of different activities ranging from a simple coffee to the more advanced commitment such as helping arranging events, going on trips and helping with major and minor activities outside of the professional boundaries. The background of this can be linked to the motives of *prosocial behaviour* (Lewin, 2008) just as much as the entrepreneurs ability to use the social ability as a tool to make people engage within hers or his interests. The informal part was agreed upon by the majority of the study groups to be an essential part but just as well not the entire story. Without the professional legitimacy one can only get that far. A pattern has not clearly appeared in the findings but the most important activity according to all the groups was the variable of how often meetings were held. For those who kept a more frequent series of meetings, showing progress or interacting on other terms, the relationships grew faster, stronger and became more fruitful. For those who kept the frequency at bay or due to time limits/priorities did not have as much meetings the relationship varied in intensity and commitment. This in itself shows how much energy that is required to build a relationship.

3.6 Discussion

This study has overall shown that it is hard to strategically build deep relationships as the activity in itself builds on so many different variables beyond the reach of a corporate entrepreneur. An example would be that, to early on, limit the focus on who to contact comes with a serious of consequences as it in most cases are too early to define and the limitation in itself is harmful. Building relationships is an activity intrapreneurs need to do all the time as the network of an entrepreneur is a direct key to how effective and corporate entrepreneur can be, according to the findings.
This study had the ambition to investigate how deep relationships could be built, but unfortunately this did not go as planned as many of the groups both had a hard time to define deep as its a subjective matter in many cases and it also was against certain people’s will engage at work. The findings show that it is difficult to have this ambition in this type of report as it is dependent on that all six teams involved could agree on what deep is, and furthermore be comfortable to pursue in building this type of relationship.

Another questions raised in the cross findings is whether or not this is morally or ethically correct to strategically build these types of relationships. Building a network is already a demanding task and by being strategic and analyse people to find characteristics on which to find a common ground, it becomes a very complex task to perform. Even more alarming, the risk of becoming ingenuine increases to a very large degree when you try to shape your communication to fit someone else. This type of activity should not be the initiative for people to become psychopaths but to increase their effectiveness and highlighting the importance of building relationships.

3.7 Implication

In this chapter this study’s implications for practice (i.e. intrapreneurs, corporations, etc), and implications for theory (i.e. others who are doing research on this topic) is elaborated upon.

3.7.1 Implications for practice

As prosocial behavior theory suggests, people are motivated to help one another and see that as a pathway to reach their own goals (Batson et al, 2008). Some people’s goals might be more ethical and communal based, where they like to help, some people’s goals might be more task oriented where they see helping as a way to feed their own tasks (Batson et al, 2008). In either way, it is important for intrapreneurs to know that people are indeed willing to communicate and help. However, for relationships to create a value for corporate projects depends on how the relationship creation is built and utilized. To do that, understanding corporate contacts, their motives, decision making unit were found as initial important enablers, as the findings of this study suggest. To be able to utilize contacts and their skills, it can be inevitably suggested to analyze those contacts deeply and communicate in their language. While doing that, creating a mutual communication and exchange was found as another criteria that affects the deepening of the relationship. The aim for an intrapreneur might be getting some people on board, however it should not be missed that by creating a value for the contacts as well, they will be mutually gaining from that relationship which will ensure the longevity and depth of the relationship, based on findings.

Relationship creation is happening in every context in our lives. So when it comes to relationship creation in corporate context, it has similar patterns. However, when creating corporate relationship, as in every interpersonal relationship, it is important not to focus on strategic intent and what can be gained from the relationship, not to lose genuinity.

3.7.2 Implications for theory

It was observed that, there is a lack of literature that analyzes relationship creation in the workplace context. In this study, previous studies were analyzed together to answer the research questions and create a value in the existing theoretical frameworks around the topic. During the study, on the one hand, interpersonal and prosocial behavior relationship theories were used to
analyze the people’s approach to the relationships. At the end, corporate relationship creation does not differ to a large extent with interpersonal relationship creation dynamics. That, you should create a mutual communication and exchange to go beyond interaction to relationship. On the other hand, stakeholder and decision making unit theories were used to understand people so get them on board and create a value for corporate projects. This study cannot claim the accurate way to create relationships to foster corporate projects. However, it can be suggested that, findings and conclusions of this study can suggest initial themes around relationship creation in the workplace context.

3.8 Conclusion

This study has shown a clear trend that internally the most important people for a new initiative like this is to attract and build relationships with managers that possesses the influential power to affect or make decisions. Externally it is all about finding ways of building legitimacy by involving experts and customers. There is an interest of building urgency within the company for this activity by either pointing the demand of a customer or through the urgency told by an expert. The strategic intent seem to be in relation to build a strong fostering foundation for the project to succeed.

However, the findings show that it is difficult to define what activities are needed to plan and methodologically build a deep relationship. Mainly because it is very hard to define the level of a relationship as you only know half of the story but mainly because it is very subjective. All different types of relationships require different pieces to become a relationship and thus this study would suggest or stress the importance of networking and continuously building relationships. Activities such as informal engagement, showing that you care, seem to have a boosting factor but is very case dependent. Finally it becomes a matter of how comfortable people are with being strategic as building a relationship purely based on the possibility of fostering your own initiatives become a morally questionable.

Overall, to methodically building deep and strategic relationships was not achieved in these projects and the findings cannot support how it is best done. The study however appoints key takeaways of how it can be initiated but future research will have to define how the final steps should be done to achieve the deep relationships needed.

3.9 References


3.10 Appendices

3.10.1 Appendix 1 - Mission and questionnaire

Questionnaire for the strategic relationships
In the first stage you should follow the first step in this questionnaire and in the second phase you should follow the second step in this questionnaire. In order to build good data to base the analysis on, please keep continues notes throughout the year.

Mission
Identify one internal person and one external person that you believe can foster your project. The mission is thereafter to build a strategic relationship with these people.

Before creating the strategic relationships
Analyse the persons you think might be valuable for your corporate entrepreneurship project:
   1. What are they working with?
   2. Why should the relationship be created?
   3. How do you think this relationship could foster your project?
   4. How will you get in contact with them?
   5. What approach will you have? Eg. Will you be clear from the beginning about the aim of why you contact them?
   6. Describe the plan you will follow in order to build the intended relationship

After building the strategic relationships
1. How did you follow the intended plan to build the relationship? (Compared with answers to 4-6 in the before chapter above)
2. How did the relationships foster your project? If it did.
3. Comparing the internal and external relationships:
   a. What similarities can you identify in how and why the relationships were created?
   b. What differences can you identify in how and why the relationships were created?
      4. How would you redefine the and improve the plan used to build the relationship?
      5. Based on the experience from this research, would you consider it possible to build a strategic relationship that fosters corporate entrepreneurship projects?
4 Finance

Nick Antti, Christiana Doran and Cecilia Ågren

4.1 Introduction

This report answers to the research questions (RQ) for the RQ Finance module within the Chalmers School of Entrepreneurship, Masters of Entrepreneurship and Business design with specialization within Corporate Entrepreneurship (CORP) programme.

4.1.1 Purpose and Aim

The purpose of the study is to compare how six companies measure the value of an innovative initiative into their company in terms of capability, output, and performance. Here, innovative initiatives are generally taken to mean: ‘applications of better solutions that meet new requirements, unarticulated needs, or existing market needs’. These solutions should have a quality of newness to them and might be radical in themselves or radical to the organization. Examples may include an innovation project; a new innovation department or even an entirely new way of working. The purpose of this study will be to highlight the common denominators and/or differences that can be found between the companies, and (if possible) recommend some KPIs and metrics for measuring innovative initiatives. It is anticipated that the results will be useful for intrapreneurs wishing to support their projects and for companies assessing initiatives, including projects and departments generally.

4.1.2 Problem/Assignment

Assessing the value of an innovative initiative is a question which many theorists have attempted to address with no one “correct” way having been distinguished. A major hurdle is what capability, output, and performance it entails, and what the appropriate metric is to measure these. Further, the metrics will differ depending on what innovative initiative is being measured - is it a project or an innovation department?

To add to the complexity, innovation as an explorative activity can either be “forced” into the organization through planning and/or structuring or else can grow organically without the need of a dedicated innovation department. This, of course, means that how companies measure innovative initiatives will differ depending on whether the project is specifically planned by an innovation department or emerges organically without any particular planning. In the former case, the organization will have an easier time valuing the initiative’s potential/capability because it can more readily identify the tangible and intangible resources going into it and then apply an appropriate metric accordingly. In the latter case, however, the company may have a harder time pinpointing exactly what resources have contributed to the project and, in the case of intangible assets, what the appropriate metric is to measure these.

The purpose of this paper is to answer this problem through exploring how six Swedish companies assess the value of an innovative initiative (capability, output, and performance) from identifying resources and capabilities to applying appropriate metrics.

4.1.3 Research Questions
RQ1. How can an organization measure an innovation initiative’s capability, output and performance to assess its value to an organization using financial and non-financial measures?

RQ2. What financial, or non-financial, measurements (tangible assets and intellectual capital) do six Swedish companies use when measuring the capability, output, and performance of innovative initiatives?

4.1.4 Scope & Limitations

A limitation of the study is that there is no objectively correct way of measuring innovation and literature on this topic is vast and is continually evolving. However, by defining innovation and by measuring in a consistent way through the template, there can be conclusions made in and between the corporations regarding or regardless of the type of sector (Gault, 2018). Moreover, the project will start with a thorough literature review before digging deeper into the most common methods and metrics used by today’s corporations as well as those used by the six companies which will be interviewed as part of the research. A limitation to the interview portion of the research is how readily collected and/or access the data is, as well as the obvious limitations which come with interviewing such a small sample size. Nonetheless, it is intended that the results will be informative, providing an overview of how major Swedish organizations measure innovative initiatives; revealing opportunities for how they can improve, as well as methods and metrics which intrapreneurs can use to promote their own projects.
4.2 Theoretical Framework

To survive in today’s rapidly changing economy, an organization must find a balance between running its daily activities whilst at the same time working with new ideas and activities (Kanter, 1985). For this reason, it is important that companies are able to value innovative initiatives however, academic theorists are yet to arrive at a conclusive way of doing so. One challenge is how companies define innovation affects the way they measure it (Olsson, 2008). Academics also vary as to what dimensions of innovation should be measured with systematic literature reviews generally agreeing on the following, which are adopted for the purposes of this paper: capability, output and performance (Edison & Bin Ali & Torkar 2013).

The theory chapter starts with some general definitions, before moving to metrics both tangible and intangible and then to examples of metrics which measure capability, output and performance.

4.2.1 Definitions

The resource-based view of strategic management holds that firm performance relies upon a company’s resources and capabilities (Penrose, 1959).

4.2.1.1 Resources

In terms of resources when it comes to innovation there is focus on human resources instead of products (Gupta & Singhal, 1993). Resources can be both tangible and intangible (referred to in this paper as intellectual capital). Tangible resources are somewhat obvious whilst intangible resources and capabilities are described by Carmeli & Tishler (2004) as including managerial skills, perceived organizational reputation, human capital, internal auditing, organizational communication, and organizational culture.

4.2.1.2 Capabilities

Rajala & Westerlund (2007) presents different definitions that have been made throughout the years. However, Rajala & Westerlund (2007) defines capabilities as intangible knowledge resources and have the viewpoint that capabilities reflect an organisation’s ability to combining resources to perform activities both inside and outside the organization.

4.2.1.3 Innovation

In order to measure innovation, it has to be defined. A common definition of innovation that has been used for a long time and for statistical measurements since 2005 within the business sector (Gault, 2018), also supported by Sen & Egelhoff (2000) is:

“An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.” - (OECD, Eurostat, 2005, paragraph 146. From: Gault, 2018).

There are other definitions of innovation which are more extended. For example, they add the process of developing a new or improved product or service etc. For example, ideation, evaluation and selection of the idea is a part of the process. (Malinoski and Perry, 2011).
4.2.1.4 Performance

Defining performance is not easy. Firstly, the time frame and reference point are needed (Santos & Brito, 2012). However, an organization’s performance is according to Carmeli & Tishler (2004) the results of its ability to utilize the resources and capabilities. More specifically, in the same context, performance is defined as market share change, return on equity, return on sales and customer satisfaction. However, there are factors such as organizational culture, organizational communication that are affecting a firm’s performance. Their study revealed that only one intangible resource (internal auditing) did not affect a firm’s performance. (Carmeli & Tishler, 2004)

4.2.2 Measurements for Innovation

Organizations need to figure out what tangible and intangible resources they must measure in view of their specific circumstances (Olsson, 2008). Tangible resources are relatively easy to value whilst intellectual capital/intangible resources are often difficult to define and measure. There are many examples of tangible resources that are able to measure; like some key performance indicators (KPIs), often set by the company itself, and different standard financial metrics.

Examples of intellectual capital include human capital, brand, culture and in measuring the effects of intangible assets on firm performance, traditional companies may use: return on sales, return on equity, market share, and customer satisfaction. However, these metrics have been criticized as ignoring the processes occurring between resources and outputs (Cordeo, 1990). One solution put forward by Werner (1997) is to combine multiple methods (objective/subjective, quantitative/qualitative) to reduce bias, introduce checks-and-balances and accurately capture the full innovation process, which in itself is multi-dimensional.

In this chapter, some of the tangible and intangible metrics used in today’s organizations are elaborated and presented as part of the theoretical framework for this analysis.

4.2.2.1 Tangible Performance Metrics

This research has to be limited to some of the tangible performance metrics, being mainly financial metrics, and some more commonly used KPIs. For this section, the KPIs and the different financial performance metrics are divided into two sub-chapters.

To clarify the connection and differences between these two sub-chapters, financial KPIs and financial performance metrics; the KPIs are a metric set by the company to reach an internal financial strategic intent, and the financial performance metrics are grouped into the two categories Cash Flow Metrics and Financial Performance Metrics (Business Encyclopedia, 2019) and have two different purposes. The cash flow metrics are to help the organization to evaluate the different event inheriting cash flows, sorting actual numbers, and the financial performance metrics are the themes to help the company for sorting out where to use the input from the different metrics; like the financial KPIs and the cash flow metrics to make the relevant analysis.

4.2.2.1.1 Financial Key Performance Indicators

To analyze the findings in this research, some of the most commonly used KPIs are stated in this framework, and the reader shall be aware of that KPIs can vary depending on how they are set by the organization. Twelve of these are ranked by Bill Greeber (2019) to be:
1) Operating Cash Flow  
2) Working Capital  
3) Current Ratio  
4) Debt to Equity Ratio  
5) LOB Revenue vs. Target  
6) LOB Expenses vs. Budget  
7) Accounts Payable Turnover  
8) Accounts Receivable Turnover  
9) Inventory Turnover  
10) Return on Equity  
11) Quick Ratio  
12) Customer Satisfaction  

There are more financial KPIs to find, and also to custom and set by the company, why this report is limited to present some of the more commonly used ones.

4.2.2.1.2 Cash Flow and Financial Performance Metrics  
The main use of the financial performance metrics are to 1) compare different actions or investments, 2) justify a chosen action in financial terms, and 3) anticipating the economic consequences of these actions/investments. These are divided into two categories: cash flow metrics and financial performance metrics. Below are some of the different metrics used in each of these categories.

**Cash Flow Metrics**  
This chapter states ten commonly used cash flow metrics used in many projects, and more information about them and each of their calculations can be found by an internet search.

- Net Cash Flow  
- Cumulative Cash Flow  
- Future Value/Compound Interest  
- Present Value  
- Payback Period  
- Return on Investment  
- Internal Rate of Return  
- Break Even Point  
- Total Cost of Ownership
- Cumulative Average Growth Rate

**Financial Performance Metrics**  
The financial performance metrics are grouped into six different themes (Business Encyclopaedia, 2019), and each of these links to different KPIs and cash flow metric that answer the question to each of the financial performance metric stated below:

1) **Liquidity Metrics:** Can the firm meet immediate spending needs?
Example: Working capital, Current ratio, Quick ratio, Accounts payable turnover, Cash conversion cycle.

2) **Activity and Efficiency Metrics:** Does the company use resources efficiently?
   Example: Sales revenues per employee, Inventory turns, Days sales in inventory, and many more.

3) **Leverage Metrics:** How do owners and creditors share risks and rewards?
   Example: Total Debt to Asset Ratio, Debt-to-equity ratios, Times interest earned.

4) **Profitability Metrics:** Is the firm earning acceptable margins?
   Example: Profit margins, Return on total assets, Return on capital employed, Return on equity, Earnings per share.

5) **Valuation Metrics:** What are the firm’s prospects for future earnings?
   Example: Earnings per share, Price to earnings (P/E) ratio, Book value per share, market to book ratio.

6) **Growth Metrics:** Are revenues, profits, and market share growing?
   Example: Growth rate, Cumulative average growth rate.

4.3 Usage and implications of financial metrics

There are loads of different metrics when it comes to finance. However, when it comes to innovation metrics, there are a few and innovation is hard to measure. There are several reasons to that. For example, innovation is new and unknown, there are often very long time-spans and there is much more uncertainty that in a regular investment (such as machinery investment). (Husk, 2017)

To add on this, generally, it is hard to estimate costs and it gets even trickier when it comes to innovation due to the long time-span and added uncertainty. Sherman and David (2016) in a Harvard Business Review emphasises that even financial statements and reports from organisations may not reflect a truly objective and true view. This is to remember when analysing financial reports etc., there are other actions taken on an operational level which is not seen accurately in the books or reports. There may, for example, be manipulative operating decisions. Financial statements depend on estimations, judgements and sometimes even assumptions. (Sherman and Young, 2016) However, when it comes to innovative ideas that are to be decided upon based on even more assumptions and uncertainty, there is often a lot of uncertainty. Hence, measuring innovation can be done, to some extent, in several ways but it is to remember that there is probably underlying information that has been judged and assumed.

Some of the most common and basic material to present for a board is the income statement, balance sheet, a forecast of the cash flow, budget results compared to actual results (Buck, 2014) It is very important to focus on other metrics than just look at the balance sheet. The balance sheet is a historic view of the organisation. Further, according to Muller, Devnani and Cox (2014) there are agents who have incentives to use certain metrics which may result in an unfair view for the decision maker(s) and lead to a decision where the best alternative seen from a long term effect is not chosen.
4.4 Intellectual Capital

In today’s knowledge based economy, the key driver of economic success has shifted from tangible to intangible assets with studies suggesting that they account for approximately 87% of the SP500’s market value. Investment in these assets has been estimated at almost $1 trillion in the US alone (Koivisto 2018). For this reason, it is important to consider both tangible assets and intellectual capital when measuring the value of an innovative initiative (Craig & Moore 2002).

The terms “intellectual capital”, “intangible assets”, “knowledge based capital” and “intellectual property” are often used interchangeably and the reason for this has to do with history, as well the treatment of intangible assets under accounting guidelines. However, for the sake of clarity, intellectual capital includes intangible assets, such as a brand, as well as knowledge-based assets such as patents and trademarks.

4.4.1 Types of Intellectual Capital

In the 1990s, Leif Edvinsson developed what has become a leading model for the structure of intellectual capital called the Skandia navigator (Bryl 2018). The model divides intellectual capital into human and structural capital. The model has been further developed by Andriessen who added a further category called relational capital (Andriessen, 2003). This expanded model is important in showing the different types of intellectual capital that a company can measure to ascertain the true value of an innovative initiative. A copy of Andriessen’s expanded model is shown below:

![Classification of intellectual capital](Source: Intellectual Capital, Unknown Year)

4.4.2 Measuring Intellectual Capital

Due to their abstract nature intellectual capital is sometimes difficult to identify and almost always difficult to measure. For this reason there is a vast number of measures which can be broadly grouped into the following categories: Scorecard methods, Market Capitalization Methods, Return on Assets, Direct Intellectual Capital Methods (Luthy 1998 and Williams 2000). The most commonly accepted frameworks and metrics found within each of these headings are outlined as follows.
4.4.2.1 **Scorecard Methods**

Scorecard methods measure intangibles with reference to certain indicators, which are context related. An example of a common scorecard method is the Skandia Navigator, which was developed by Edvinsson and Malone and measure five focus areas using 164 metrics (Bryl 2018). These focus areas include Finance (the balance sheet), Processes (how products and services are created), Renewal and Development (the company’s capabilities for the future), Human (employee satisfaction) and Customers (how well customer needs are met) (Bryl 2018). When measuring the Customer perspective, a company might look at indicators like brand awareness, customer service and satisfaction and market share (Marr, 2019). Although the method does not provide a precise value of intellectual capital, it can create a good understanding of the current and future status of the organization and can be applied at all levels (Sveiby, 2001).

4.4.2.2 **Market Capitalization Methods**

Market Capitalization methods are used on an organizational level to measure IC. The most common method is the Market Value Added (MVA) which looks at the difference between current stock market value and its book value (Bryl 2018).

4.4.2.3 **Return on Assets Methods**

Return on assets methods are used on an organisational level to compare how profitable a company is relative to its total assets (CFI, 2019). A common ROA method is the Value Added Intellectual Coefficient, which measures the performance of a company (Palazzi, Sgro & Ciambotti 2018). In particular, the method measures the efficiency of intellectual capital, including: human capital, structural capital and human capital employed individually. The data for the necessary calculations are derived from the balance sheet, which makes the method transparent, verifiable and easy to compare against other companies (CFI, 2019). A downside, however, is the difficulty in measuring the efficiency of human capital.

4.4.2.4 **Direct Intellectual Capital Methods**

These methods identify and then evaluate the monetary value of components and elements of intellectual capital (Palazzi, Sgro & Ciambotti, 2018). The problem with direct methods is that they only provide data on the selected IC components and elements. Further, as they do not measure IC elements in financial terms, their outcomes are not very useful for financial and comparing purposes (Palazzi, Sgro & Ciambotti 2018). A common example is the Intellectual Assets Valuation (IAV) model which concentrates solely on valuing intellectual property (Sullivan, 2000).

4.5 Examples of metrics that measure capability, output and performance

<table>
<thead>
<tr>
<th>Tangible Metrics</th>
<th>Capability</th>
<th>Output</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. R&amp;D spend as a percentage of sales</td>
<td></td>
<td>2. Financial Performance</td>
</tr>
</tbody>
</table>
| Intellectual Capital | 3. Number of new ideas in the pipeline  
4. Number of new employees in R&D.  
5. Measuring: Level of competence/ability in team, know-how, practical skills, number of new challenges given to employees. | launched in X amount of time.  
2. Revenue/growth from new products.  
3. ROI of innovation activities  
4. Actual vs targeted breakeven time for new products. | Metrics  
Profitability Metrics (Profit Margins, ROA, ROE)  
KPIs |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Scorecard Method | 2. Value Chain Scorecard  
3. Return on Assets Methods  
2. Direct Intellectual Capital Measures | 1. Valuation |

Table 1: Examples of metrics that measure capability, output and performance.
4.6 Method

The method is divided into collecting and interpreting the data, and will outline the proposed method, including templates (see Appendix), for answering the research questions of this module. It will involve a literature review as well as a semi-structured interview conducted by students at the six partner companies involved in the CORP-programme. The questionnaire may be slightly modified by the students in order to fit into the specific corporation's context best as possible. When the investigation is done, all the students will report back their gathered data to the authors of this paper for analyses. The method has been designed in a way to ensure that the companies are compared on an equal basis. The analyses and results of this RQ-study will be presented as a part of each student’s master research project.

The data will therefore be collected using an action based research approach. This will involve students enrolled in the corporate track of the Chalmers School of Entrepreneurship Masters Programme conducting semi-structured interviews with six Swedish companies participating in the 2018-2019 Corporate Partnership Program. The interviews will be conducted with stakeholders who are ideally tasked with deciding upon whether an innovative initiative is invested in or not. The interview questions are set out in the Appendix and will address the main research question and associated sub-questions. The data collected through these interviews will be compared on a company-basis and interpreted with reference to the findings of a literature study to ensure an objective approach. The students are not limited to the survey questions and are encouraged to report anything else they may think relevant including, in particular, case examples from their respective companies. Specific insights and knowledge in the area will be conducted from professor Tobias Fredberg and finance tutor Björn Frössevi.

4.6.1 Research risks

The major risks identified with this research are about the sample size and the difference in organizations’ backgrounds. The variety in backgrounds of the organizations is very unique and should be of great advantage and end up with interesting results and conclusions. However, there are also risks with this. For example, there might be hard to draw correct parallels and conclusions when there are many factors that differ.

Another risk that often comes with researches with a sample of very few organizations is the risk of not getting enough data for analysing. There might be circumstances that make it hard or not even possible to do the research in a specific company. That would have a direct impact on the results due to very few organizations are involved in this research.
4.7 Results and Discussion

The RQ asks how an organization can measure an innovation initiative’s capability, output and performance using financial (tangible) and non-financial measures. The findings with respect to financial were divided into two categories: Financial Key Performance Indicators and Cash flow and Financial Performance Metrics whilst non-financial metrics have been summarised in the chapter Intellectual Capital. A number of interesting findings were also made which are summarised under the heading Other Criteria.

4.7.1 Tangible Performance Metrics

A summary of the tangible metrics are listed in Table 2 below and further discussed under their respective categories as follows:

<table>
<thead>
<tr>
<th>Company</th>
<th>Company Specific Metrics</th>
<th>Traditional Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>NPV</td>
</tr>
<tr>
<td>A</td>
<td>Revenue Over Time</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>Own Innovation Process and Special Budgeting</td>
<td>N/A</td>
</tr>
<tr>
<td>C</td>
<td>Cash Flow</td>
<td>Yes</td>
</tr>
<tr>
<td>D</td>
<td>Profitability for Specific Project, Operating Margin, IRR</td>
<td>Yes</td>
</tr>
<tr>
<td>E</td>
<td>Cash Flow, IRR, Real Options</td>
<td>No</td>
</tr>
<tr>
<td>F</td>
<td>EBITA, TBEA, Affordable Loss</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Table 2 Compiled Financial Innovation Metrics for the Partner Companies.

4.7.1.1 Cash Flow and Financial Performance Metrics

The questionnaire asked the companies what traditional metrics they used and if there were any company-specific ones. The traditional financial metrics used include: NPV, ROI, and Payback Time. Company-specific metrics include Cash Flow, Affordable Loss, Real Options. Overall, the financial metrics differed dramatically between the companies with no observable trend in their choice of metric or the types of metrics used, that is, whether the metrics could be categorised as ‘Cash Flow’ or ‘Financial Performance Metrics’.

4.7.1.2 KPIs

All six companies are using at least one KPI however they vary in terms of which ones they use. Generally speaking, however, the most common KPIs used by these companies are NPV and ROI with half the companies using NPV and the other half using ROI. In terms of specific findings, Company F, which is a project-based organization, uses EBITA as a metric. Interestingly, it also uses a “home-made” metric called, TBEA, which is a modified version of
the contribution margin. There is only one company (Company E), which is solely focused on financial KPIs. This organization is a part of a large group and is assumed to carry a higher responsibility to present and account for proposals in financial terms.

An obvious reason for the inconsistent results is that it is difficult to measure innovation. The lack of research on the topic, as well the absence of standardized metrics supports this view. Furthermore, the fact that there companies are developing their own metrics (like Company F’s TBEA) represents further evidence of this. One reason a company may select one KPI over another is based on their experience from having used that KPI in other projects. Additionally or alternatively, the KPI might have been selected to fit with the context of the company and/or industry, as well as for its ability to measure different dimensions of performance (Glücksman, 2018). An example of this last point is that an NPV might not be as important for one company as it is for another i.e. the other company might value other variables higher than the NPV of the investment like market exposure or potential for future development, etc. Furthermore, interviews with the companies financial decision-makers confirmed that innovation is indeed hard to measure and that most companies were unsure about which metrics to apply. They reported that their choice of metric was based on their previous experiences, what they thought was appropriate and what felt right to them.

4.7.2 Intellectual Capital

Unfortunately, there was not much data with respect to measuring intellectual capital. What could be inferred from the discussions is that the companies respective finance departments are aware of intangibles in the traditional sense but don’t measure a specific one. They appear to use a broad approach in measuring intangibles taking the difference between the company’s value and its book value. The problem with this method is that it does not identify or evaluate the monetary value of the components and elements of intellectual capital. An alternative, therefore, would be to use direct intellectual capital methods, which provide a detailed view of the actual assets and their worth. Alternatively, the companies could shift their focus away from metrics like market valuation methods, which provide a financial summary of a project’s outcome and performance and focus more on scorecard methods, which give a non-financial look at a company or project’s capability. Looking at the data, there is obviously room for the companies to improve in this area.

A surprising finding, especially after setting the initial structure and theoretical framework for this study, was the role of gut-feeling in decision making amongst all of the partner companies. Gut-feeling has been included under intellectual capital because of its all-encompassing nature which takes into account both financial and non-financial input. It is explored in further detail below.

4.7.2.1 Using Gut-Feeling to measure capability

Although it is not an official metric, gut feeling was the main way the companies measured intellectual capital.

Several companies reported the use of gut feeling in their decision-making processes. In particular, around half of the companies (A, C, F) use gut-feeling to make decisions. Companies C and F stated this explicitly whilst it was easy to infer from the reasoning and explanation given by Company A about its metrics that gut-feeling is affecting their decisions too.

Company C, in particular, does not use any metrics. Since it is a publicly owned organization
where the main mission is not to make money but create value for citizens, other factors are considered more important than financials. The same company also communicated that there is a lack of knowledge around innovation metrics. However, when the students spoke to the financial department, they did refer to metrics but the kind that measure ordinary projects versus metrics regarding innovation and innovative initiatives. Hence, when it comes to how Company C’s measures innovation, the results indicate that they do use gut-feeling more than standard metrics.

Moreover, Company F seems to be the most extreme company when it comes to relying on gut-feeling. The CEO and CFO clearly state that there is a lot of gut-feeling being used when making investment decisions. However, they did indicate that they use EBITA and a “home-made” metric that is essentially an adapted version of contribution margin. What the CEO communicated is that there are other dimensions aside from finance which are important when making investment decisions including whether the investment is in line with market trends, the organization’s strategy, customers’ needs, etc. and, of course, whether it “feels” right.

### 4.7.3 Capability, Output, and Performance Metrics

Throughout the course of research, it became apparent that most of the metrics did not fall neatly into the categories of capability, output and performance in the sense that one metric could actually be used to measure more than one of these categories depending on the context. An example of this is Direct Intellectual Capital Measures, which can be used to measure both capability and output. When looking at the types of metrics used by the companies, they can broadly be grouped into the following categories (Table 3):

<table>
<thead>
<tr>
<th>Company</th>
<th>Capability</th>
<th>Output</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Company B</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Company C</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Company D</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Company E</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Company F</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Table 3 Compiled use of Metrics at the Partner Companies.*

What is apparent is that the companies all focussed on measuring output and performance but not so much capability, which is what is most important when it comes to innovative initiatives. Innovative initiatives involves the “implementation of [something] new or significantly improved” (OECD, Eurostat, 2005, paragraph 146. From: Gault, 2018) and so for this reason it is not immediately possible to measure the output and performance of that initiative. It is therefore recommended that the companies which do measure capability (Companies A, D, E and F) consider implementing measures of capability.

Looking closer at the individual metrics used to measure capability, output and performance, there was, again, no particular metric common to most or all of the companies. This led to the
conclusion that when it comes to measuring capability, output and performance there is no “correct” way or any benefit in applying all of the metrics. Ultimately, the companies should be aiming to select whatever metric is most suitable for their company that is also suitable to the innovative initiative at hand. For example, if an innovative initiative is still in the proposal phases it is not possible to measure output and performance so it is important that the company selects a metric the measures capability and not just output and/or performance.

4.7.4 Does the Presence of an Innovation Department Affect how the Company Measures Innovation?

From the six partner companies, only two have an innovation department whilst a further two have a structured way of working with innovative ideas. From the findings there was no correlation between whether a company had an innovation department and the types of metrics used or their level of sophistication. This is consistent with McKinsey’s findings that most organizations do not have any proper metrics for measuring innovative output (Roth, 2018).

4.7.5 Suggested Changes

For the four (4) companies not focusing on capability, there several of tools for them to consider. For tangible metrics, these include:

- Discounted Cash Flow
- R&D spend as a percentage of sales
- The Number of new ideas in the pipeline
- The Number of new employees in R&D.
- Measuring: Level of competence/ability in the team, know-how, practical skills, number of new challenges given to employees.

The listed metrics are suggestions that either can be used separately, together or in combination with other metrics. One reason to combine metrics is that each metric has its pros and cons. For example, it may be beneficial for some companies to measure R&D spend as a percentage of sales. This metric could be used to compare different projects in direct financial terms and provide insight about the relationship between development costs and income. However, this metric fails to take other factors and values into account. Another metric is counting the Number of new ideas in the pipeline. This metric is a great metric for a company to use over a period of time to gain a rough insight about its innovation potential. However, what to remember here is that this metric does not distinguish the ideas in terms of quality, the degree to which they are anchored to reality or the likelihood that the company will proceed with the idea. Hence, there could be 100 ideas, which according to the metric give the impression that the company is very innovative company when in reality only one or a two are considered valuable and likely to proceed.

When it comes to intellectual capital, the following metrics could be used:

- Scorecard Method
- Value Chain Scorecard
- Return on Assets Methods
- Direct Intellectual Capital Measures
A further suggestion to the companies that are not using performance metrics, or those using only one of the different KPIs such NPV or ROI (Greeber, 2019), is to consider experimenting with different metrics to see what works in different situations. Since there is lack of research within this area and a lack of standardized metrics, a company could apply ROI, NPV and Payback-time the next time they are trying to assess whether or to invest in an innovative initiative. They can then evaluate the outcome and decide if it was appropriate and whether it is worthwhile applying different KPIs. However, the important thing to remember here, is to not just focus on KPIs. Instead, KPIs should be seen as a compliment to other factors such as market potential and strategy alignment. It goes without saying that KPIs are only as good as the data fed into them so they should not be considered as accurate measures particularly in the case of innovation where there is a lot of uncertainty.

4.7.6 Other Criteria

During discussions a number of unanticipated methods emerged, which the companies used to decide whether or not to implement an innovative idea. The first was whether or not the idea fit the company’s strategy and the second was the use of “gut feeling”.

4.7.6.1 Strategic Alignment and Customer Needs

For the majority of companies, strategic alignment was the most important factor in deciding whether to implement an innovative initiative.

Company C, in particular, asks two questions - is the idea in line with 1) our company strategy, and 2) our market strategy? With respect to the first question (company strategy) they consider whether the new idea aligns with strategic, company-specific criteria like digitalization, scalability and standardization. With respect to the second question (market strategy), they ask if the idea aligns with their overall market strategy, as well as their customers’ needs.

Company F also considers strategic alignment, focusing on how the idea can further their competitive advantage in the areas of connectivity, automation and electromobility to best serve their customers. As employees collaborate closely and understand what the company requires financially, they are trusted to rely on their gut feelings and previous experiences to motivate their proposals.

There are positive and negatives in relying upon strategic alignment and customer needs as a means for deciding whether to pursue an innovative initiative; what if the customer doesn’t know what he/she wants? What if the business model needs to change? Isaacson (2011) argues that the customers don’t always know what they want until they show them and this view is indirectly supported by Ries (2011) whose Lean StartUp model advocates the pivoting a business model in response to user feedback. The benefits of this approach are summarised by Maddox (2018) as including an increase in customers and focus; the chance to move into a different industry and to promote business growth. For this reason, it is important for companies to question their strategy and customer needs rather than following them blindly.

4.7.6.2 Gut Feeling

Another major interesting finding was the role of gut feeling in the decision-making process. One possible reason why it is being used so frequently is the fact that it is difficult to measure innovation. Another reason is that there is a lack of knowledge about what metrics to use. At any rate, they are not always particularly accurate and this would likely undermine their
During the workshop a lot of the discussion actually focussed around the definition of gut feeling. The class was divided in their preferences - half were critical of using one’s gut to make objective decisions on behalf of a company whilst the other half were critical of financial metrics, pointing out that the metrics were only as good as the data fed into them. When all was said and done, however, both parties realised that they were actually looking at the same problem from opposite sides. In other words, it was universally agreed that both “gut feelings” and financial metrics were only as good as their inputs / the data that influenced the final decision.

Based on this line of reasoning, it was therefore concluded that in order to make robust decisions, decision-makers should cultivate a degree of self-awareness so that they are able to detangle the various inputs that are prompting their emotional responses. An example of this would be if a decision maker had a bad gut feeling about a project proposal when that feeling could actually be for multiple reasons: maybe they had done a similar project that went wrong in the past because of influences that are now absent from the current proposal; maybe they feel that the company is heading toward stormy weather and therefore the company might not be able to afford the risk when actually the project could steer them out of that very weather. Once decision-makers are able to distinguish between these various inputs then they will be in a better position to actually assess the validity of their most immediate feelings.

The same recommendation was also made for those using financial metrics to ensure that their metric’s eventual outputs convey an accurate picture of what the project can actually achieve. This is consistent with the observations of Muller, Devnani and Cox (2014) that some metrics can be manipulated by the choice of data put into them, which is potentially perilous as it can lead a decision-maker to conclusions based on an inaccurate picture of the innovative initiative.
4.8 Conclusion

The purpose of this paper was to investigate how six Swedish companies measure the capability, output, and performance of innovative initiatives. Overall, the findings show that there is no one way to measure innovation with the companies differing in how they measured capability, output and performance. Half of the companies used traditional financial metrics to measure tangible performance such as NPV and ROI. These measures are not necessarily suited to measuring innovative initiatives and were likely carried over from former (more traditional) projects. This lack of uniformity seen between the companies is likely due to the difficulty in measuring innovation, as well as their lack of knowledge around innovation metrics. A few of the companies did attempt to measure intellectual capital however this was done using very general measures indicating a lack of awareness around intellectual capital generally.

When looking at the companies individually, it appears that they measure output and performance but not capability. To assist companies in measuring capability, several suggested metrics were presented. It was noted in this context that no single metric can give an accurate and/or comprehensive view of an innovative initiative’s capability, output or performance and so it was recommended that the company’s adopt a combination of metrics.

A number of surprising findings were also made. The most surprising of which was the degree to which strategic-alignment, customer needs and gut-feeling were used by companies to make decisions. The learning here was that non-financial factors are often more influential than financial ones and that decision-makers should therefore be conscious of the types of inputs motivating their decisions.

Overall, the small amount of theory on the topic, as well as the absence of standardized measures necessarily limits the degree of analysis, which can be made but also reveals an opportunity for further research about the effect of different metrics in the context of innovative initiatives. Given the sheer number of metrics which exist, both financial and non-financial, one approach could be to take an action-based approach, testing the metrics out, then comparing their results to existing theory.
4.9 References

4.9.1 Literature


4.9.2 Other references


Koivisto, M. (2018). *As the innovation race hots up, how can we value intangible assets?* Available at: https://www.weforum.org/agenda/2018/09/when-we-can-t-quite-put-our-finger-on-it-intangibles-and-finding-better-metrics-for-financing-technological-disruption/ [22 May 2019]


### General measurements

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes/No</th>
<th>Answers/Comments:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does your organisation have an innovation department?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. How did the organisation decide both in financial and non-financial terms whether to have the department or not?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. How do the organisation measure the innovation results/success?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. When an innovative initiative (project?) is proposed, how do you decide whether to implement it?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. How many proposals are implemented in the organisation? (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. What tangible and intangible assets does your organization measure when assessing an initiative at the following stages: pre-implementation, implementation and post-implementation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. What methods does your organization use to measure the output/success of an innovative initiative?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Financial measurements:

<table>
<thead>
<tr>
<th>Question</th>
<th>Used</th>
<th>Not used</th>
<th>Comments:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KPIs</strong>: What kind of KPIs are used when the corporation is considering in investing in innovation or not?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPV</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payback time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other method 1:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other method 2:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other method 3:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NB: *Please also report anything else you pick up during the fieldwork which you think may be relevant.*

**Examples of methods and metrics**

- Annual R&D budget as percentage of annual sales
- Number of patents filed in the past year
- Number of ideas submitted by employees
- Number of active projects
- Percentage of sales from projects introduced in the past X years.
- Aggregate ROI of new ideas implemented
- A ratio of revenue (or net profit) from new ideas divided by the average cost of implementation of an idea
- Valuing intangibles using cash flow analysis