



Innovation and entrepreneurship: strategies for business growth

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This article analyses what companies can learn from independent entrepreneurs. Based on the results of a research made with a sample of Spanish companies, an explanation is given of how companies can foster entrepreneurial behaviour and accelerate innovation processes.

Introduction

Companies need entrepreneurial people to grow. Their view, their capacity to see things differently, identify opportunities, develop projects and get involved in them, to drag teams to achieve results, are at the origin not only of future-oriented business creation but also of the dynamism of many organisations and innovative social projects. Entrepreneurs are true agents of change creating value for companies and society.

Up to the 1980s, entrepreneurship was restricted to creating and developing new companies – now it is business organisations that also want to become entrepreneurial and grow by developing new projects. This new phenomenon has been termed as corporate entrepreneurship. Its advent is the consequence of the searching process companies engage in to find new ways of accelerating the identification of new opportunities and the development of innovative projects.

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The first companies that decided to create the adequate setting to encourage entrepreneurial attitudes among their employees were the big, mainly US-based corporations, from which their corporate entrepreneurship strategies spread all over. This has become today an emergent phenomenon taken over by companies and business organisations, both public and private. However, organisational structures often still have barriers that are an obstacle to spreading a truly entrepreneurial culture. In this chapter we will analyse what companies can learn from independent entrepreneurs. Out of the results of a research made

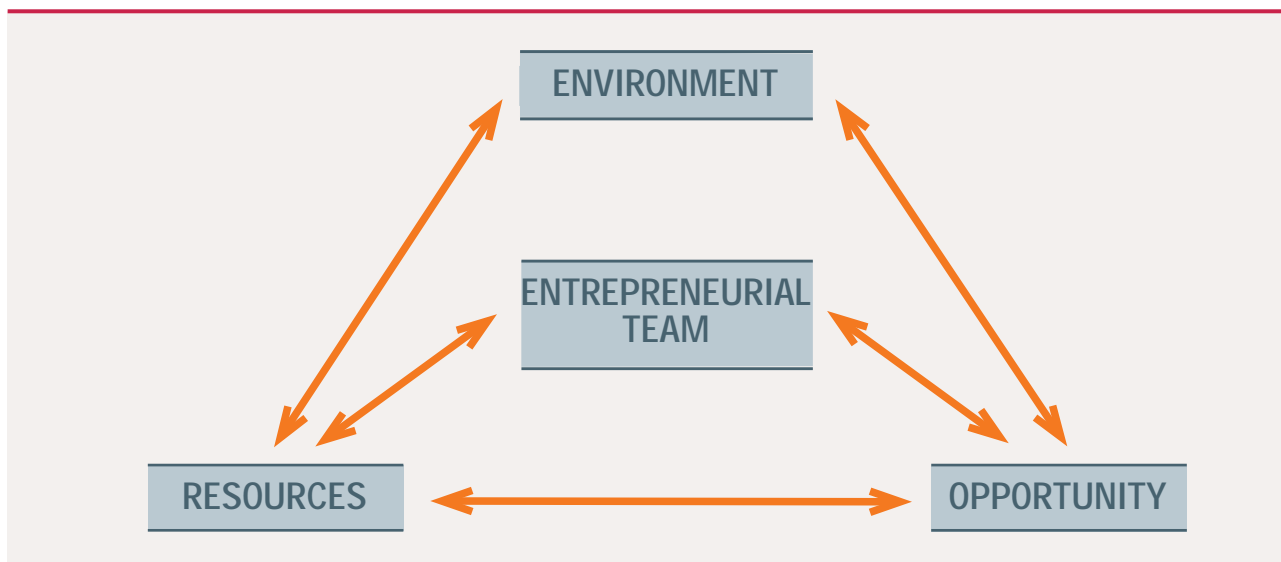
with a sample of Spanish companies, an explanation will be given of how companies can encourage entrepreneurial behaviour and accelerate innovation processes.

Independent entrepreneurs and entrepreneurial companies

The phenomenon of entrepreneurship was first analysed by economists in the 18th century, who considered that entrepreneurs were the crucial players in economy as they were able to create new organisations and take on risks for which they expected pecuniary compensation. In the second half of the 20th century, researchers posed the question of which psychological properties were common to successful entrepreneurs (McClelland, 1961; Collins & Moore, 1964) and discovered that most had similar features: strong result-minded orientation, ability to take responsibility and moderate risk and strive for independence and internal control. Some years later, authors like Gartner (1989) asserted that the most important was not to focus on the entrepreneur profile but their behaviour.

This is how a definition was worked out, according to which the creation of a company is the result of identifying a market opportunity, searching for a unique combination of resources with the aim of exploiting it and creating an organisation able to develop, produce and sell the product or service so as to satisfy the need identified on the market. This definition bears many variables materialised in some criteria (entrepreneur, opportunity and resources) and a dynamic process subject to its environment, the result of which is a new company (graph 1). The search for resources comes often after identifying the opportunity and the ability of the entrepreneur lies often in knowing how to use resources they do not have and with whose owners they need to come to terms in different ways. The success of that process will

Graph 1. Criteria for the process of entrepreneurship



Source: adapted from Timmons & Spinelli (2004)

- ▲ The creation of a company is the result of identifying a market opportunity, searching for a unique combination of resources with the aim of exploiting it and creating an organisation to produce and sell the product.

depend on their ability to find a perfect harmony between their own motivations, the opportunity and the resources.

Stevenson & Jarillo (1990) extend these concepts to business management and set a difference between what they call entrepreneurial management (focused on the search for opportunities beyond controlled resources) and administrative management (aimed at a more efficient management of resources).

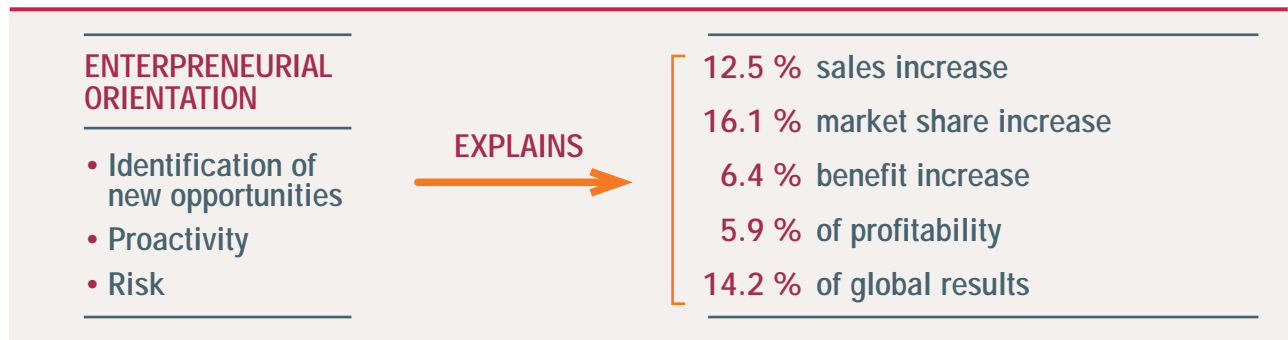
Entrepreneurial management is short-term-minded, considers that opportunities do not wait and that resources are a simple tool to be taken advantage of. Stevenson & Jarillo (1990) consider that entrepreneurial leadership is more adequate than a rather administrative profile for companies competing in sophisticated settings. Later pieces of research assert that companies need to find a balance between both management types that adapts to each situation and life cycle.

Entrepreneurial management is a drive for business growth. In a survey made by BusinessWeek that shows the ranking of companies having grown most in the last three years,¹ the reasons for these European «gazelles» were basically four:

- ▶ Ability to identify opportunities by searching for new product-market binomials
- ▶ Capacity to exploit them quickly, reducing their time-to-market
- ▶ Permanent focus on improving efficiency and productivity in order to generate positive cash flows that allow permanent innovation
- ▶ Commitment to growth determining all strategic decisions

The first two are deeply related to entrepreneurship while the latter two focus on business growth. In any case, both concepts are related.

Graph 2. Relation between entrepreneurial orientation and business results



Source: Bieto (2008)

- ▲ There is a positive correlation between entrepreneurial orientation and business results based on increase of sales, benefit, market share and profitability

The Ansoff Matrix (1985) states that, in order to grow, companies need to develop new products, enter new markets or do both things. Growth has a lot to do with what is new.

However, entrepreneurial orientation is not only related to growth. Research done with different samples of companies from various parts of the world shows that the more entrepreneurial ones obtain better results. Particularly one piece of research we did out of a sample of 258 Spanish industrial companies with a turnover above ten million euros led to the conclusion that there is a positive correlation between entrepreneurial orientation and business results based on the following indicators: increase of sales, benefit, market share and profitability (Bieto, 2008).

that is, to start risky projects that allow it to launch products and services before the competition does. This combination of innovation, proactivity and risk has a positive impact on sales and market share as well as on global results but its influence on the benefit and profitability is smaller (graph 2).

It is thus easy to conclude that companies should be entrepreneurial and take into their corporate strategies the search for internal conditions that encourage among all organisation members a spirit to look for new growth opportunities. The following section will describe some practices the companies follow to foster entrepreneurial orientation.

Entrepreneurial orientation reflects the capacity of a company to start risky projects that allow it to launch products and services before the competition does.

Entrepreneurial orientation is a construct created by Covin & Slevin (1991) that reflects the capacity of a company to adopt an entrepreneurial behavior,

Entrepreneurial practices

Ever since the multinational 3M became famous towards the end of the 1970s with the launch of one of its most popular products, Post-it, companies have tried to set up, in a more or less successful and structured way, different initiatives to accelerate innovation and the launch of new products. These practices have gone along two different, complementary rationales:

Graph 3. Elements of internal entrepreneurial practices



Source: own research

- ▲ The aim of internal practices is to encourage the creativity of employees and entrepreneurial behaviour and to accelerate the process to evaluate ideas and their implementation.

- ▶ Internal practices, focused on developing internal entrepreneurial competencies
- ▶ External practices, based on forging strategic partnerships with different players involved in identifying new opportunities

Internal practices

The aim of these activities is to create internal conditions that encourage the creativity of employees and their entrepreneurial behaviour on the one hand and accelerate the process to evaluate ideas arisen internally and their implementation on the other. Graph 3 takes up the key elements of these practices: an architecture characterised by strategy, structure, culture, hu-

man resource policy, an entrepreneurial leadership process and its development (Bieto, 2001).

Entrepreneurial architecture

Independent entrepreneurs share similar features and so do entrepreneurial companies:

- ▶ Their strategy is clearly characterised by a will to grow and a quest for competitive differentiation. Moreover, all members of the organisation know the strategic goals including innovation and renewal variables of the product portfolio. These targets are up to the executive staff.
- ▶ Highly bureaucratised and hierarchical organisational structures usually pose serious barriers to

innovation. Therefore entrepreneurial companies have flexible structures, create multidisciplinary units to develop new projects and encourage access to information and key resources such as time.

The company needs to be able to capture a large amount of ideas. Only few of them mean true opportunities so in this first stage of the process it is necessary to encourage as many innovating proposals as possible.

- ▶ Tolerance to errors and the celebration of success are elements of corporate culture that stimulate entrepreneurial behaviour and proactivity with employees.
- ▶ The human resource strategy needs to be turned towards developing internal entrepreneurial leadership. Human resource policies can aim at looking for entrepreneurial profiles to cover certain jobs, i.e. people with a strong mind towards achieving results and with experience in developing projects. Incentive policies also should acknowledge entrepreneurial behaviour of employees. Although it is true that entrepreneurs do not act on economic incentives only, they do expect some recognition for their success

Entrepreneurial leadership

The development of an internal context favourable to new ideas is not possible without entrepreneurial leadership at the different hierarchical levels (Burgelman, 1984).

Senior management plays a paramount role in both corporate strategy and business culture.

The heads of business units are responsible for contributing to sales growth by launching new products in their business lines and need therefore to set out adequate organisational structures.

Junior management plays a critical role (Burgelman, 1984). After all, it is them who identify internal entrepreneurs, create multidisciplinary project teams and allocate resources to them. Without their active role, corporate entrepreneurship programmes may in some cases be doomed to failure.

Finally, internal entrepreneurs are the central element of internal practices. They are the main players of innovation. Their creativity and perseverance, their capacity to overcome internal barriers and to look for internal sponsors are the driving force behind developing new projects. Every company needs a given amount of such employees.

Process

The third element in the set of internal practices is a structured process that is known by all members of the organisation, channels internal initiatives and evaluates and allocates the necessary resources to implement them in case they are considered feasible.

Such processes need to adapt to the characteristics of each organisation but have to consider the following items:

- ▶ The company needs to be able to capture a large amount of ideas. Only few of them mean true opportunities so in this first stage of the process it is necessary to encourage as many innovating proposals as possible.
- ▶ The process needs to be transparent and make sure that all ideas are analysed.
- ▶ Swiftness in analysing ideas as well as their approval and implementation need to coexist with the necessary accuracy to take decisions that bear a bigger risk due to their nature.

Most companies are currently fostering initiatives that facilitate this process. Chart 1 shows the ac-

Chart 1. Importance given by companies to different entrepreneurial practices

Activity	% of companies considering this item very important
Capture of ideas from clients for new products and services	69.5 %
Setting out a new process to develop new projects within the company	56.3 %
Employee involvement in searching ideas for new products	53.0 %
Creation of a specific department to develop new products and projects	49.8 %
Organisation of new idea contests	21.8 %

Source: own research

▲ Most companies are currently fostering initiatives that facilitate an entrepreneurial process.

tivities mentioned most often by a set of Spanish companies.

External practices

The second set of practices companies promote to improve entrepreneurial capacities is related to external collaborations the aim of which is:

- ▶ Increasing the flow of ideas and capturing innovative proposals from outside the company
- ▶ Bringing objectivity into evaluation and decision-taking for implementation
- ▶ Accelerating the start of new projects

Some multinational companies have created specific programmes combining the internal with the external. This is the case of the Connect + Develop programme by Procter & Gamble, which has become a role model for innovation policies: over 50% of their new products are the result of the collaboration with different companies or institutions promoted by the programme.

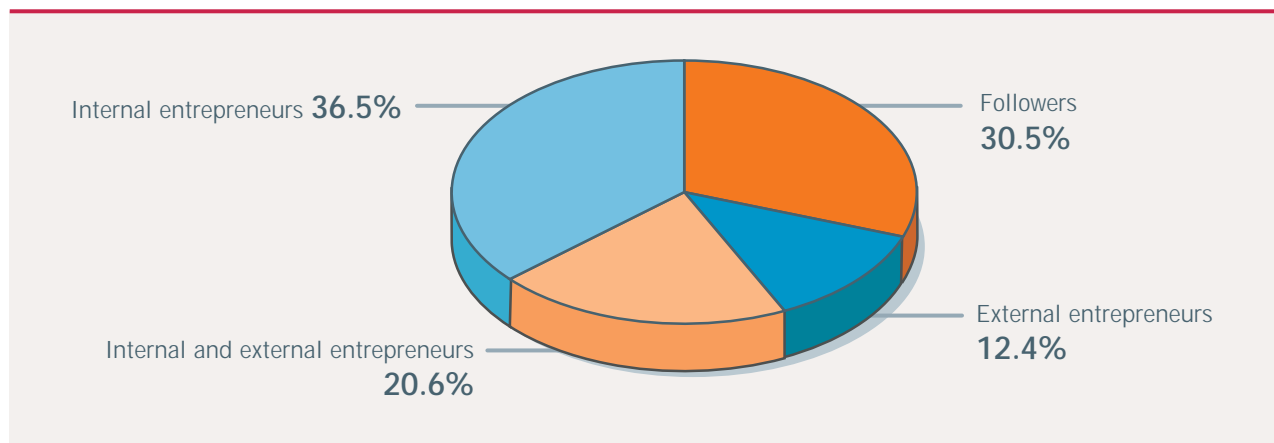
The following practices are an example of this kind of activities:

- ▶ Collaboration with universities and research institutions to search for new patents and technological innovations
- ▶ Partnerships with small entrepreneurial companies to enter new markets
- ▶ Creation of external research networks
- ▶ Access to internal innovation committees with experts in industries and technologies
- ▶ Partnerships with venture capital funds to administer innovation budgets allocated to develop venture projects

A company profile

In the last years, most Spanish companies have searched for new strategies that allow them to increase their entrepreneurial capacity. The first activities carried out were related to fostering em-

Graph 4. A profile of Spanish companies according to their entrepreneurial practices



Source: own research

▲ Internal and external entrepreneurial companies grow most and generate more benefit.

ployee initiative (internal innovation days, idea contests, etc.) and led by and by to the coexistence of such practices with the search for these capacities outside the organisation.

The companies analysed in the survey mentioned in this section are classified according to a profile with the following notable features (graph 4):

- ▶ 69.5% have a strong entrepreneurial drive, having adopted internal and external practices to this end.
- ▶ 30.5% consider themselves to follow others and have not implemented any specific programme to search for new growth opportunities. They simply follow their competitors.
- ▶ 36.5% have encouraged internal entrepreneurial practices. This is the largest group and shows the concern of Spanish companies for promoting entrepreneurial behaviour among their employees.
- ▶ 12.4% have outsourced innovation capacities.
- ▶ 20.6% look for mixed tools: apart from promoting internal entrepreneurial activities, they foster

external collaborations with universities, research institutions, small entrepreneurs and venture capital funds.

The four company profiles are different as to size (the followers are the smallest while the internal and external entrepreneurs are the biggest), overall competitive strategy (the followers are the only not driving for a differentiation strategy) and their perception of the environment (internal and/or external entrepreneurs altogether consider that the environment offers growth opportunities). Moreover, entrepreneurial companies have the better results. More precisely, it is the internal and external entrepreneurs that grow most and generate more benefit, followed by the internal entrepreneurs and the external entrepreneurs.

Conclusions

In this chapter we intended to analyse innovation from an entrepreneurial perspective. The good results obtained by companies promoting and encouraging entrepreneurial behaviour among their employees, setting out strategies and structures

facilitating proactivity and the permanent search for new ideas seems to be a factor of emerging competitiveness. Moreover, the combination of these practices with collaborations and partner-

ships with various external players involved in the innovation value chain makes sure sustainable growth and competitive advantage for organisations.

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Notes

1. The *BusinessWeek* magazine publishes every year a list with the 500 European companies having had the highest average growth in the last three years.