CORPORATE ENTREPRENEURSHIP:
An exploratory research in Argentina

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Paper prepared for the Research forum on Entrepreneurship in Latin America at Babson College

Boston, USA 10-11 June, 2002

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2 Coordinator of the Karel Steuer Chair of Entrepreneurship at St Andrew’s University
INTRODUCTION

Firms around the world have always struggled to find new ways to accomplish growth, profitability and competitiveness. This has become a tough objective considering the pressures of a globalized economy. Latin American firms and multinational subsidiaries in the region are facing the challenge of finding their roll in world markets, as their governments try to find ways to promote economic development in order to fight unemployment and poverty.

There is no question about the need to become competitive and efficient according to world standards, therefore managers are expected to come up with solutions that match stakeholders’ expectations. International investors’ attention and money has focused on developing countries such as Argentina, Brazil, Chile and Mexico, in the past decade. The tradeoff wasn’t only the businesses generated with domestic markets, but the potential profits derived from the growth of these emerging economies, the development of free trade in the region, and the possibility of international trade.

Mergers, acquisitions and joint ventures have become common ways to accomplish firm growth, and plenty of these transactions have taken place in the region just as in Europe and the United States. Anyhow, creating growth from within the organization is still a difficult goal to reach. In this context, Corporate Venturing becomes of great interest for managers and researchers as an alternative way to succeed in the business world.

The purpose of this chapter is to study the Corporate Entrepreneurship phenomenon and examine its potential as a tool that enables innovation, growth and
profitability in organizations. We suggest that firms with Entrepreneurial Orientation have a better chance of survival than their competitors. Furthermore, we pretend to describe the current situation of Corporate Entrepreneurship in Argentina based on an ongoing exploratory investigation that is being held at San Andrés University in Buenos Aires.

CONCEPTUAL DEVELOPMENT

Entrepreneurship is “the process of creating value by bringing together a unique package of resources to exploit an opportunity... ...It is the pursuit of opportunity without regard to resources currently controlled” (Stevenson et al. 1999). Now, in order to exploit an opportunity, it needs to be identified first, and then there has to be a coherent idea on how to exploit it. This is what we can call Entrepreneurial behavior; the act of defending and developing new ideas from their conception to their realization (Pinchot, 1985). These ideas must address an opportunity, they must be feasible and profitable at the same time, and may constitute a powerful source for change and innovation, fostering creativity and a constant search for new solutions to all kinds of problems (McGrath et al., 1992; Stevenson & Grumpet, 1985). The need for Entrepreneurial behavior seems imminent in a world of continuous evolution and increased competition (Veciana Verges, 1996), becoming a valuable asset for all sorts of organizations.

Corporate Entrepreneurship is the term used to describe the Entrepreneurial Behavior inside established organizations (Morris & Kuratko, 2002). Zahra (1991) has observed that “Corporate Entrepreneurship may be the formal or informal activities aimed at creating new businesses in established companies through product and process
innovations and market developments ...with the unifying objective of improving a company’s competitive position and financial performance.” Thornhill and Amit (2000) state that “The motives for launching a corporate venture include improving profitability (Zahra, 1991), generating strategic renewal (Guth and Ginsberg, 1990), fostering innovation (Baden-Fuller 1995) and gaining knowledge that may be parlayed into future revenue streams (McGrath, Ventakataraman and MacMillan, 1994)”.

Furthermore, authors such as Block and MacMillan (1995) suggest that “New ventures can spark the creative energies of your employees, establish innovation as part of your corporate culture, and enable you to develop profitable new products, services, and markets. It can also help you find these new opportunities before your competitors do”.

When approached seriously, Corporate Entrepreneurship may be integrated throughout the entire organization rather than as a separate or individual activity, influencing the way things are done. The true entrepreneurial spirit may even become part of the corporate culture, influencing performance despite the results of any particular venture. Covin and Slevin (1991) focused on corporate entrepreneurship as an overall approach within a company, indicating a direct relation with organizational performance. They argue that this is so because strong entrepreneurial orientation or intensity positively influences: organizational vision and mission; objectives, strategies and structure; organizational operations; and eventually, organizational culture. Figure 5.1 illustrates this model. The integrative concept proposed, helps us understand the roll and relevance of corporate entrepreneurship in any organization. The impact of entrepreneurial orientation will vary according to its intensity, hopefully encouraging managers to undertake entrepreneurial actions with a comprehensive knowledge of organizational behavior. In other words, there are many ways in which corporate
entrepreneurship can improve performance, beside its own financial results, and organizations can benefit considerably by inducing entrepreneurial orientation.

Going back to the concept of Entrepreneurship, it is worth noting the difference between independent ventures and corporate ones. Ventures that take place inside an existing organization have a distinctive set of obstacles related to the context in which they are developed because they have to deal with the culture, processes and systems of the parent firm. This is not the case with independent ventures given that they create an organizational context of their own. On the other hand, the parent firm has a lot to offer to the venture in terms of resources and knowledge, despite any bureaucratic conditioning.

Now that we have clearly identified the field of study we can describe in greater detail the different ways in which a corporate venture can be developed. Even when a venture is originated within a firm, it can still be managed internally or externally, and the degree of commitment of the parent firm may vary widely. Figure 5.2 illustrates both Entrepreneurial alternatives as well as the most frequent forms of corporate venture management (Roberts, 1980).
We have identified several types of Corporate Entrepreneurship, and have cited the benefits that organizations may get out of it, but corporate venturing is no guarantee of success. In fact, past results show a mix record of outcomes. The odds in favor of success are not that encouraging if we consider that every new venture deals with either new products, new markets, new technology or a combination of the three (Roberts, 1980). In one way or another, new ventures always take place in unknown territory where uncertainty rules. This probably leads to the misconception of a high level of risk involved in Corporate Ventures. That is exactly what Corporate Entrepreneurship is about: planning and evaluating in order to control the level of risk accepted. On the other hand, there isn’t any strong evidence that supports another strategy, besides corporate venturing, with a higher probability of success; and we can still find some great examples of multinational firms that have grown tremendously thanks to venture processes. The most popular of them being 3M, a company that states in its policy manual that 25 percent of revenues must come from products five years old or younger.
Even if chances for success weren’t stimulating, no organization can be competitive in a sustainable manner without some kind of new venture. Unless the only growth strategy accepted is greater market penetration with established products, every company will have to manage new products, new markets or both at one time or another. These are the alternative paths for corporate growth, as shown in figure 5.3.

**Figure 5.3**
**Paths for Corporate Growth**

<table>
<thead>
<tr>
<th>Products \ Markets</th>
<th>Old</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old</td>
<td>Greater Penetration</td>
<td>Develop New</td>
</tr>
<tr>
<td></td>
<td>Increase Share</td>
<td>Markets</td>
</tr>
<tr>
<td>New</td>
<td>Develop New Products</td>
<td>Diversification</td>
</tr>
</tbody>
</table>

Source: Block and MacMillan 1995

Corporate Entrepreneurship involves a process that refers to three of these four scenarios, except for the old markets – old products one, proving its relevance for the business world. It is worth emphasizing the involvement of a process, because as such, it can be studied and improved. Morris and Kuratko (2002) have stated that “one of the most valuable contributions to our understanding of entrepreneurship is the general recognition that a process is involved. It is a process that occurs in an organizational setting, including larger, established companies”.

In order to conclude the description of the framework, we can add that corporate entrepreneurship combines the elements of entrepreneurship with strategic requirements of corporations (Morris and Kuratko, 2002), given that they take place within them. One of the most prominent corporate requirements is strategic management. Guth and Ginsberg (1990) illustrated the fit between them to help develop our understanding of the dynamics of this discipline in the corporate context, as seen in figure 5.4. The description of the components of the model and their interaction are beyond the reach of
this chapter. Still, we can stress two main issues: first, corporate entrepreneurship is related to innovation and strategic renewal; second, the characteristics and results of corporate entrepreneurship are influenced by the environment, the strategic leaders, the organization form, and the organization’s performance.

Figure 5.4
Fitting Corporate Entrepreneurship into Strategic Management

The purpose of the conceptual framework discussed up to this point is to introduce the terms and the variables related to a complex phenomenon such as Corporate Entrepreneurship. We still have a lot to learn about it, and hope that future research and experimentation will help unfold the layers of corporate processes, so that they can be better understood and managed.

CASE STUDY

Introduction

The present case study is based on an ongoing exploratory investigation concerning Corporate Entrepreneurship’s development in Argentina being held at San
Andrés University in Buenos Aires. The purpose of this investigation is to assess the
current situation and relevant characteristics of the corporate ventures that take place in
large firms operating in the country. These include domestic firms as well as
multinational subsidiaries. The preliminary results that we have included in this chapter,
will help us describe the case and hopefully add to our understanding of the kind of
obstacles that new ventures have to overcome in order to succeed.

We suggest that the context in which these ventures take place imposes a
particular set of challenges that will influence the way in which they are developed,
given that no organization can be freed of the problems related to operating in a
stagnated economy\(^3\). Unfortunately, the comparison with other investigations is beyond
the reach of this chapter but the information provided is still valuable to researchers and
managers in Argentina as well as in other parts of the continent. Eventually, this or
similar investigations will take place throughout Latin America enabling comparisons
that will add to the understanding of Corporate Entrepreneurship’s processes providing
a wider perspective.

Methods

Sample. The initial sample size included 100 large companies operating in
Argentina. We sent a screening letter asking if they were willing to be part of the
investigation and 30 responded affirmatively. A follow up letter was sent to non-
respondents resulting in a sample of 53. A survey was then delivered to these companies
but only 34 of them answered. Finally we disregarded 4 of those 34 because they
declared no corporate ventures were being developed, and another 4 because the
information provided by the survey was incomplete. The final sample was comprised of

\(^3\) See Appendix I for macro-economic data on Argentina.
26 firms including: 5 banks, 4 in consulting, 3 in energy and natural resources, 4 in consumer goods, 3 industry related, 3 in technology and communications, and 4 service firms. Figure 5.5 illustrates the final sample’s characteristics.

**Figure 5.5**

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>5</td>
</tr>
<tr>
<td>Consulting</td>
<td>4</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>4</td>
</tr>
<tr>
<td>Industry</td>
<td>3</td>
</tr>
<tr>
<td>Tech. &amp; Com.</td>
<td>3</td>
</tr>
<tr>
<td>Energy &amp; Natural Resources</td>
<td>3</td>
</tr>
<tr>
<td>Services</td>
<td>4</td>
</tr>
</tbody>
</table>

Measures. The survey used was adapted from the one created by Thornhill and Amit (2000) and consists of 45 multiple choice questions regarding different issues related to the development of the venture, enabling us to gather information related to: the financing, the monitoring, the incentives, the human resources and the management of the venture. The main reason for using this survey is that it was perfectly suitable for the purpose of our investigation and it has already been tested. Just as in Thornhill and Amit’s study, “respondents were asked to indicate on a scale of one to seven the degree to which they agreed or disagreed (1=strongly disagree, 7=strongly agree)” with the statements proposed. Answers of 5 or higher were considered positive while responses of 4 or less counted as negative.

It was required that respondents had a minimum of six months working in the company, and had participated in a corporate venture. This provided us with primary information which we then complemented with open interviews to key informants and senior managers. These in-deep interviews gave us qualitative information regarding the
context in which ventures occur, helping us find meaning in the analysis of the results obtained. Although the sample size is not big enough to allow generalization, we believe it is useful as an exploratory investigation, letting us come up with some relevant observations and establishing the way for further research.

Results

Most of the firms studied had considerable experience in corporate venturing, as seen in figure 5.6; almost 70% had developed 3 or more previous ventures, while only 3 out of the 26 firms studied (12%) where working on ventures for the first time. The majority of the ventures (65%) had between 3 and 10 years of age, and 19% were less than 1 year old.

Figure 5.6

![Previous Experience in CV](image)

There are many reasons to engage in corporate venturing, as described at the beginning of the chapter. In this case though, our results indicate that firms supported the process not because they had few growth opportunities, but because the venture had higher expected returns than any other project. This makes sense given that only 20% stated the company’s business was declining. The majority considered their business
was still at a growing stage, and had not reach maturity yet. That explains why 3 out of 4 reported that the parent firm had a strong financial situation.

We thought resources would be allocated quickly in order to exploit very brief opportunities generated by the changes in the context. Contrary to our belief, this was not the case, even when the resources needed represented a small proportion of the company’s budget. Over 40% of the ventures had a budget that represented less than 1% of that of the company, and more than 30% of the ventures operated with budgets ranging from 1 to 5 percent of the company’s one. Figure 5.7 graphs this information. In any case, investments in the ventures were not specialized. Another interesting finding is that in over 80% of the ventures, the promised funds were effectively assigned and not delivered to other projects, showing either a high level of commitment or a low level of competitive alternatives. Even more so, 70% stated that the investments in new ventures were not considered sunk costs. These results suggest that companies, especially those with strong financial situations in growing markets, engage in new ventures with small and carefully controlled investments.

Figure 5.7

With regards to the recruitment of the venture team, it is not clear whether the most talented personnel was assigned or not. What we can stress is that the team leader was selected from within the firm in all but 6 cases. Furthermore, the most common
criteria used to select the leader is his or her knowledge of the company’s processes, key players and requirements. This is essential to overcome any bureaucratic obstacle and enable the venture’s development. A close second in the ranking was experience in the line of business of the venture and in managing a division. In other words, team leaders seem to be persons that have gained the company’s trust and have proved they fully understand its formal and informal structures. Surprisingly, previous experiences in entrepreneurship and in corporate venturing were ranked last in the list.

Questions referred to the control of the venture show that most companies expect too much and too soon from their ventures, although it is unclear whether the ventures have any special means to match expectations. The budget is not more flexible than that of other divisions, the venture manager does not have greater decision power and in half the cases, corporate processes and systems must be used. What seems clear is that ventures are controlled by milestones (over 70% responded affirmative), and have specific financial objectives (again over 70% affirmative). This is important for venture leaders and teams so that they know how are they going to be evaluated. In half the ventures studied, venture leaders report directly to the CEO, and in another fourth to Executive VP’s; see Table 5.1. In fact, in many cases CEO’s and Executive VP’s themselves were responsible for the ventures. This is consistent with the fact that over 80% of the CEO’s supported the ventures, and almost the same amount encouraged them. Overall, they did not interfere with the venture unless it was having trouble meeting the milestones, in which case, they decided to withdraw their support eventually putting an end to it. We can therefore say that we have found a strong level of commitment, something absolutely necessary for the success of any project.

Table 5.1

<table>
<thead>
<tr>
<th>The CV’s Manager reports directly to:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>13</td>
</tr>
<tr>
<td>Executive VP</td>
<td>7</td>
</tr>
<tr>
<td>Manager</td>
<td>4</td>
</tr>
</tbody>
</table>
In terms of rewards, we found that bonuses and wage increase were the most commonly used when the venture succeeded. Equity and stock options were scarcely cited, probably due to the magnitude of the ventures. Far more popular than financial rewards were recognition, promotion and the opportunity of participating in another venture. These rewards come as no surprise because they are no different from the ones traditionally implemented. In fact, almost 60% of the answers described these rewards as not specific to venture projects. On the other hand, the implications of failure were: first, going back to previous positions; and in second turn, participating in another venture. Table 5.2 presents the complete results for failed ventures’ consequences to team members. No harder consequences were cited, except in two cases, possibly because it is essential to provide a safety net to team members in order to encourage entrepreneurial spirit, and value the courage of employees willing to assume greater risks than the ones required by their traditional jobs. It is also important to mention that with low levels of investments it is almost impossible, even for a failed venture, to generate strong negative consequences for the company; therefore, there is no need to condemn the team for it. Two final comments about consequences: one, the benefits of the venture go to the team in one third of the cases, and to all the employees in another third; two, if the venture fails, the company tries to learn from the experience (69%).

Table 5.2

<table>
<thead>
<tr>
<th>Failure Consequences for Venture Teams</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loose the Job</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Other Job</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Back to former Job</td>
<td>15</td>
<td>58%</td>
</tr>
<tr>
<td>Early Retirement</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Another CV</td>
<td>7</td>
<td>27%</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Data about CEO’s show approximately two-thirds of them with 10 or more years of experience in the industry. This gives them the power of knowledge, which they seem to complement with power to distribute the resources at their will; an astonishing 88% of positive answers prove the point. Definitely the most agreed upon issue referred to the training budget. In 92% of the ventures, the training budget was not higher than that of the company. And in 42% of them, the CEO only trained them once a year. The training they do receive, focused mainly on management (leadership, empowerment, motivation) and business skills (finance, marketing, accounting); but they pay little attention to Entrepreneurial training.

Last but not least, 23% of the ventures failed to generate profits by the end of the third year. Figure 5.8 illustrates the Ventures’ profits relative to that of the parent companies for the first three years; we can observe the number of ventures with none or less than 5% profits relative to the company’s one decrease, and a rise in ventures generating increased profits of 5% or higher to the company. Out of the ones that did become profitable: after the first year, 65% managed to increase the company’s revenue by less than 2 percent; by the end of the second year, 70% managed to increase the company’s revenue by less than 5 percent; and by the end of the third year, 80% accomplished an increase of up to 10 percent. Besides the economic outcome of ventures, one last result indicates that 77% of the previous ones were considered as positive experiences.

Figure 5.8
Ven tu’s profits relative to the Company’s

The most relevant information we could obtain with this survey has been described. Table 5.3 lists a summary of the conclusions that came out of analyzing the results. Although the sample size is not big enough, we suggest that the conclusions we present in this exploratory study are a pretty good description of the present situation of Corporate Entrepreneurship in Argentina. Eventually, further investigations will enable us to arrive to stronger conclusions.

Table 5.3
Summary of conclusion obtained by analyzing the results

| • Firms support CE not because they have few growth opportunities but because ventures have the highest expected returns. |
| • CE is used as an effective growth strategy. |
| • CE seems prominent in growing firms with a strong financial situation. |
| • CV’s are developed with small investment, posing no threat to the company’s finances. |
| • Team leaders are selected from within the firm, and the most commonly used selection criteria is the understanding of and experience on company’s divisions, processes, structures and key players. |
| • Companies expect too much and too soon from ventures. |
| • It is not clear whether venture teams have the necessary resources to meet expectations. |
| • CV’s are evaluated according to milestones and financial objectives. |
• Overall, a strong level of commitment towards ventures was found.
• Rewards for CV’s are no different from the rest of the company.
• Financial rewards used are bonuses and wage increase; non-financial rewards are recognition and promotion.
• Failure consequences for Venture Team members are minimum.
• Companies try to learn from failed ventures.
• CEO’s have extensive knowledge of the industry and power to allocate resources.
• The training budget for the venture team is not higher than that of the company, and is focused mainly on management and business skills.
• There is a good chance CV’s will become profitable by the third year, but in most cases, the profit they generate is not significant to the company.
• 3 out of 4 ventures are considered positive experiences.

Discussion

Even when Corporate Entrepreneurship is not widely spread around companies, there are good reasons to believe that we will witness a considerable increase of these practices in years to come. The exploratory investigation we have presented, has provided us with relevant pieces of information that describe the way in which ventures are developed, and has contributed significantly to our understanding of its processes. It is important to continue working in this field of study in order to better understand the dynamics of these processes and the variables involved in venture success, taking into consideration Latin American culture. Hopefully we will learn how to improve the way in which ventures are planned and managed, keeping in mind that successful ventures are a source of employment and economic activity; two fundamental issues for developing countries such as Latin Americans.

Probably the most revealing finding is that there is a strategic intention behind Corporate Ventures, even when they are small and almost insignificant to the
company’s business. This explains the strong levels of commitment towards them despite their reduced budget, resources and revenues. It seems CEO’s already understand that Corporate Entrepreneurship is much more than just a way to develop new projects. It is a particular way of understanding what organizations are about and the way they should operate. We expect a wide organizational integration of this discipline, if not on its practices, at least on its concepts. Furthermore, we predict that those organizations that are better suited to embrace this change will become more successful than their competitors; gaining better chances of growth, profitability and ultimately survival.

CONCLUSIONS

In this chapter we have attempted to describe the concept of Corporate Entrepreneurship, presenting its framework and the case study of Argentina. We have included many important references of some of the authors that have addressed the subject and described the findings of our own investigation. Its limitations are clear: the sample size is not big enough to allow generalization, and the economic context in which the ventures studied are being developed is far from regular. Anyways, the results obtained gave us a good description of the case. Corporate Ventures are managed as small investments with a strategic perspective; they are carefully controlled and evaluated. There is no evidence that venture teams have the necessary resources to succeed, but a strong commitment towards them was found without significant bureaucratic obstacles imposed by the parent firms. They still have a relative small scale but there are reasons to believe that they will become more and more influential in company’s businesses.
Corporate Entrepreneurship’s potential exceeds the financial outcome of any given venture. The benefits for organizations engaging in this practice are many and very different; and they can even influence organizational culture by imposing an Entrepreneurial Orientation that fosters innovation and creativity. Corporate Entrepreneurship can modify organizational behavior by stimulating the constant search for new opportunities and the blossoming of ideas that are appropriate to exploit them. After all, the relationship with organizational performance seems inevitable.

More extensive investigations are needed, not only in Argentina but around Latin America, in order to accomplish a complete understanding of this phenomenon. Further research will help explain its characteristics, the reasons for success or failure, and its true potential for organizations. A Corporate Entrepreneurship benchmark index (CEBI) is already being developed as part of a research program at San Andrés University, with the purpose of assessing the Entrepreneurial level of organizations. The results obtained with this index, together with other investigations to come, will define the future of Corporate Entrepreneurship’s research. Hopefully, this chapter will encourage managers to start venturing, and contribute to future studies on this field.

REFERENCES


**Other References**


**APPENDIX I**

**Selected Macro-economic Data for Argentina**

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (current US$)</td>
<td>272.1 billion</td>
<td>283.3 billion</td>
<td>285.0 billion</td>
</tr>
<tr>
<td>GDP growth (annual %)</td>
<td>5.5</td>
<td>-3.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>GNI per capita (current US$)</td>
<td>7,740</td>
<td>7,550</td>
<td>7,460</td>
</tr>
<tr>
<td>Inflation (annual %)</td>
<td>-0.1</td>
<td>-1.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Exports (% of GDP)</td>
<td>10.5</td>
<td>9.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Imports (% of GDP)</td>
<td>11.1</td>
<td>11.5</td>
<td>11.4</td>
</tr>
<tr>
<td>Gross Capital Formation (% of GDP)</td>
<td>18.1</td>
<td>17.9</td>
<td>15.9</td>
</tr>
<tr>
<td>Overall Budget Deficit (% of GDP)</td>
<td>-2.2</td>
<td>-2.9</td>
<td>-2.3</td>
</tr>
</tbody>
</table>