EXPERT insight

Illustration by LEONARD BEARD

CORPORATE ENTREPRENEURSHIP

Six Keys to Release Ideas for Profitable Growth

By HAKAN ENER

At the beginning of 2014, Thomson Reuters reported that companies around the world were sitting on an estimated $7 trillion in cash and liquid assets. In battening down the hatches to ride out the storm of the global financial crisis, it seems companies have accumulated vast amounts of cash on their balance sheets – more than twice the levels of a decade ago. "Capital expenditure relative to sales is at a 22-year low and some strategists reckon the typical age of fixed assets and equipment has been stretched to as much as 14 years from pre-crisis norms of about nine years," stated Reuters.

The same report quoted several investors who believed that companies were under-investing in their core business activities, casting doubt on their prospects for organic growth in the near future. A "record number of investors" were urging firms to "deploy their cash," with one chief executive insisting that "the extent to which firms put cash balances to work was key to the pace of recovery."

But what should corporate leaders do to deliver growth? In the past, a popular strategy was to go on an acquisition spree. However, making the right acquisition deals that generate economic value is difficult, risky and potentially expensive – all the ingredients of a corporate strategy that make managers

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nervous during times of uncertainty.

Yet there are other strategies that companies can employ to put their abundant resources to work – not just of cash but of ideas and people.

This article calls on leaders to engage in *corporate entrepreneurship* – to embrace new initiatives inside their companies that will boost profitable growth in the marketplace. Using examples from Europe and North America, and based on my work at IESE collaborating with companies to help them create new business units, I highlight the shared features of effective corporate entrepreneurship strategies. By answering the six essential questions that I outline below, senior executives can discover how to involve middle managers and employees alike in the process of generating new business ideas and developing those ideas into viable business opportunities.

Asking the Right Questions

Corporate entrepreneurship, which is sometimes referred to as *intrapreneurship*, is a term coined by the legendary management scholar Peter Drucker. It refers to the process of initiating new ventures or creating new sources of value within an established organization. Put simply, it is where the start-up spirit meets the corporate world.

Until recently, corporate entrepreneurship took a top-down approach. Senior executives dominated the process, seeing it as their job to come up with the ideas for all the new business opportunities that the company would pursue.

Increasingly, however, companies are adopting alternative approaches. Rather than controlling all of the decisions that need to be made along the way, senior executives are playing more of a guiding role. Approaching corporate entrepreneurship this way is proving better for identifying and nourishing new growth areas for companies, and generally yields more exciting results.

To identify new corporate entrepreneurship initiatives, senior executives need to reflect on where they currently stand. Heads of business units and corporate divisions should start by asking themselves the following six questions.

1. Are We Asking the Right People?

In the past, senior executives may not have felt quite so compelled to ask those outside of the leadership team for input on new business opportunities. However, during the recession years, as senior executives found themselves preoccupied with urgent restructuring and cost-cutting measures, their attention was diverted from customers and their emerging needs. Consequently, senior management's ability to generate new sources of value depends on reinforcing ties inside the organization with customer-facing employees and middle managers who have maintained their proactive stance toward customer needs.

Recent figures from the U.S. Bureau of Labor show the "quit rate" among U.S. workers at its highest level since the 2008-09 downturn,

EXECUTIVE SUMMARY

As the recession fades, corporate leaders need to switch from crisis mode to thinking more seriously about how to grow revenues and create value once again. Corporate entrepreneurship – the creation of new businesses inside established corporations – offers a strategy for profitable growth, and serves as an attractive alternative to old, acquisition-led, inorganic growth strategies.

Based on the author's work collaborating with companies to help them create new business units, this article highlights six key questions to help senior executives reflect on where they currently stand in relation to corporate entrepreneurship. It also draws on the real-life experiences of corporate entrepreneurs to suggest better ways of boosting buy-in for their new business ideas.

By considering state-of-the-art practices and learning how Silicon Valley entrepreneurs operate, the author reveals smarter ways for customer-facing managers and employees to generate ideas, assess their potential and measure their progress – so that the start-up spirit finds free expression in the corporate world at a time when it is greatly needed.

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and this voluntary turnover is frequently attributed to a perceived lack of recognition and empowerment. With this in mind, senior executives would do well to pay attention to the presence or absence of adequate feedback systems, so that potentially lucrative business ideas can find expression and reach the right ears. If no such channels exist, companies run the very real risk that the people with the most interesting business ideas will eventually leave the company.

This was a point not lost on a group of top executives of a large European aerospace company for whom IESE recently ran a corporate development program. It wasn't just that they acknowledged they no longer had a monopoly on interesting business ideas; rather, they were positively convinced that middle managers needed to be given control over generating, selecting and developing those ideas. We observed that managers a few levels below the top tier could be extremely effective in managing such processes – first, when encouraged to do so by the senior management team, and second, when working together in groups of peers.

2. Are We Looking in the Right Places?

Asking for input from managers who know about customer needs is a great start, but it is not always the best way to identify opportunities for corporate entrepreneurship. In fact, according to research by Harvard Business School professor Clayton Christensen, a single-minded focus on meeting the needs of existing customers may lead to innovation blind spots, causing emerging customer segments to be overlooked and resulting in the eventual loss of market share.

Corporate leaders increasingly recognize that new business opportunities are emerging in market segments and countries different from their current focus. For this reason, many car companies, including BMW, Volkswagen and Renault-Nissan, have opened offices in innovation hotspots such as Silicon Valley to develop entirely new capabilities. Even non-automotive companies, such as Google, are working in unexpected realms, exploring innovative fields like driverless cars. See sidebar.

In going to these places, companies can keep track of emerging fields, feeding that knowledge back to engineers and managers who work in the core business and who can transform those ideas into new sources of value.

General Electric is another good example. In a bid to become more of a service provider, the company established a software hub in Silicon Valley. In identifying financially attractive opportunities for the use of GE technology in industry, healthcare and transportation, senior leaders have largely followed the proposals of this software division, rather than taking their steer from headquarters.

3. Is Our Review Process Right?

Even when top executives seek input from middle managers, many business ideas never make it to the top for even a basic review of their value-creation potential. Part of the problem is that many companies rely on old processes that operate more like a suggestion box. The problem with suggestion boxes, as we all know by now, is that the best ideas get buried in them – either because the decision-makers never get around to reviewing them or the ideas are too raw to merit their attention.

When identifying and reviewing promising business ideas, leaders need to transform from a suggestion-box mind-set toward a venture-capitalist mind-set. Venture capitalists spend roughly half their time looking for promising ideas to invest in, while the other half is spent managing existing investments. Likewise, senior executives should be allocating significant time for reviewing new business ideas – and widely publicizing this fact internally. Knowing that business proposals are being taken seriously by senior management is a powerful motivator that will encourage more managers and employees to step forward with their ideas.