Chapter 2
Conceptualizing Corporate Entrepreneurship Capability and Its Linkages Towards Firm Performance

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ABSTRACT

The practices facilitating Corporate Entrepreneurship Capability (CEC), an intangible organizational capability embedded in an enterprise's culture are particularly important to innovation. The existing literature suggest the important of combining practices, however, there is a distinct lack of theoretical as well as empirical studies that have explored how these practices work together to promote and facilitate CEC. While different alternatives to realize the simultaneous reconciliation of exploration and exploitation have been proposed, how organizations build CEC is not fully understood. In this chapter, the authors first define CEC and then explain its relationship with Business Model Innovation (BMI), Innovation Ambidexterity (IA) and firm performance. The chapter is a theoretical contribution and builds on the Schumpeter view on entrepreneurship and innovation, resource-based theory of the firm and corporate entrepreneurship literature. The authors have suggested alternate contingency models for testing relationships among CEC, BMI, IA and Firm Performance.

INTRODUCTION AND BACKGROUND

How does a firm go about creating an organic growth machine? High-growth companies become low growth all the time. Many CEOs accept this as an inevitable sign, that their businesses have matured and so they stop looking internally for big growth. Instead, they shift their attention towards acquiring smaller companies or seek a "transformative" acquisition of another large business, preferably a high-

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growth one. Similarly, investors try to distinguish between companies that have realized substantial organic growth from their acquisitions and those that have simply gotten bigger. Sooner or later, even the most dedicated acquirer must work-out how to generate strong organic growth (Favaro 2012). But profitable organic growth is difficult. Many business executives agree that the ability to drive business growth and implement new and innovative ideas are some of their top priorities (Drucker 2002; Rigby 2003; Planting 2006; Morris et al., 2008). When core businesses begin to flag, research suggests that fewer than 5% of companies regain growth rates of at least 1% above gross domestic product. According to another recent survey, companies that put greater emphasis on creating new business models grew their operating margins faster than the competition (Wolcott, 2007). But how can established organizations build successful new businesses on an ongoing basis? Does creating new businesses, or enhancing corporate entrepreneurship (CE) within an organization, provide one such solution? What is Corporate Entrepreneurial Capability (CEC) and its building blocks? These are some of the questions that are going to be answered in this chapter.

It is an entrepreneurial manager inside an organization who pursue opportunities by linking discrete pieces of new technical knowledge through market sensing mechanism, and provide solutions to customer problems and garners resources, competencies and skills needed to the organization. This process leads to the birth of new businesses and to the transformation of companies through renewal of their key ideas (Guth and Ginsberg, 1990). In this context, an important question is, does the firm provide suitable environment to these entrepreneurial managers so that they decide to stay back in the organization and pursue these initiatives. There are many new companies and business venture that are formed by ex-employees of successful companies. One of the reasons for leaving the firm and creating their own venture may be linked to the failure of firm's entrepreneurial process, routines and related practices. For example, evidence over time about the founders of firms appearing on the Inc. 500 list shows that well over 40 percent of those studied got the idea for their new businesses while working as employees for companies in the same industries (A. G. Lafley and R. Charan, 2008). There are several explanations for these findings. By working in an industry, an individual may spot market niche that is underserved by the current employer or other players in the industry. It is also possible that while working in a particular area, an individual builds a network of social contacts in that industry that may provide insights that lead to opportunities (J. Aarstad et.al, 2010). It could also be the case that the firm is not able to provide a suitable environment for innovation and does not have the necessary capability to proactively re-design, re-deploy and execute the firm's entrepreneurial processes, routines and related practices. Thus, a firm trying to inculcate a culture of entrepreneurship has to develop specific capability. In this chapter, we have made an attempt to define this capability.

Innovation is central to the entrepreneurship literature and refers to the introduction of a new product or services, new process, exploring new market and technology or new way of doing business in organization. Some researchers have proposed that practices facilitating learning and knowledge transfer are particularly important to innovation (Kogut and Zander, 1992; Teece and Pisano, 1994). As the need to understand and develop CE increases (Stevenson and Jarillo, 1990; Dess et al., 2003), so does the need to understand the linkages between entrepreneurship and radical innovation. However, managing both innovation and CE in parallel is often complex and challenging. The implementation of innovation and CE cannot be achieved by paying 'lip service' to the ideal (Hof 2004). Within the field of CE, business model innovation is also gaining a growing attention. A good business model is able to create and deliver value propositions that are compelling to customers, support in creating advantageous cost and revenue streams, and enables significant value capture by the business that generates and delivers