

**INTERNAL CORPORATE VENTURING AS A TOOL FOR
CORPORATE RENEWAL**

by

RUDI SCHOLTZ

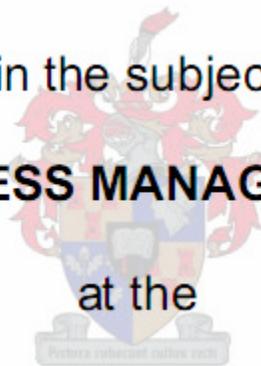
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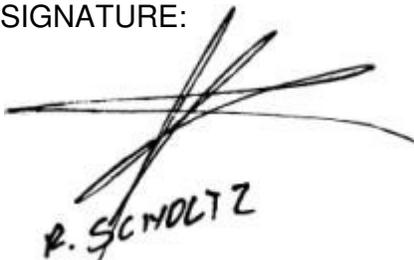
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March 2009

Declaration of own work

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

SIGNATURE:

A handwritten signature in black ink, consisting of several overlapping, sweeping lines. Below the signature, the name "R. SCHOLTZ" is written in a simple, blocky font.

DATE: 26 JANUARY 2009

Abstract

This study recognises that innovation and renewal is instrumental in gaining competitive advantage. However, large firms often face a renewal dilemma. Despite the fact that many firms recognise the need for innovation and renewal, they find it challenging to implement innovation. Thus, the need for renewal is complicated by finding a suitable business development tool to bring about the renewal needed. The problem is further aggravated by a fundamental managerial conflict of exploration and exploitation. This conflict causes a reluctance to engage in exploration activities (searching for new resources, knowledge, and competence), due to the operational focus of exploiting current resources, knowledge, and competence. To overcome the renewal dilemma, this study investigated the relationship and linkages between Internal Corporate Venturing (ICV) and corporate renewal to determine how Internal Corporate Venturing (ICV) can be used as a tool to initiate corporate renewal and overcome the renewal dilemma.

The study made use of a qualitative, mixed-method methodology and investigated the research problem in two phases. The first phase of this study used Grounded Theory to propose a theoretical framework that illustrated how ICV provides a firm with a strategic process that effectively balances exploration and exploitation activities, providing the linking mechanisms needed between a firm's corporate context and its external environment, enabling the firm to initiate corporate renewal. In the second stage of this study, the theory was assessed, by comparing the proposed theoretical framework to a case study involving an internal venturing programme at an established financial services firm in Southern Africa.

Based on a comparison between the proposed theoretical framework and the case study, this thesis concludes that ICV could theoretically be used to address the renewal dilemma; however, it was not possible to confirm this proposition, due to the stage in which the corporate venturing programme the case examined found itself,. The case study did however suggest that ICV could enhance a firm's ability to instigate corporate renewal, through its ability to create idiosyncratic endowments from a firm's endowment base.

Key words: Internal Corporate Venturing, Corporate Renewal, Innovation, and corporate entrepreneurship

Uittreksel

Die studie argumenteer dat innovasie en hernuwing instrumenteel is om mededingende voordeel te verkry. Groot ondernemings word egter gekonfronteer met 'n hernuwingsdilemma. Ongeag die feit dat baie ondernemings die behoefte aan innovasie en hernuwing erken, vind hulle dit 'n uitdaging om innovasie te implementeer. Die behoefte aan hernuwing word gekompliseer deur 'n geskikte besigheidsontwikkelingsinstrument te vind om die hernuwing wat nodig word, te weeg te bring. Die probleem word verder bemoeilik deur 'n fundamentele bestuurskonflik tussen eksplorasië en eksplorasie. Hierdie konflik skep 'n huiwering by ondernemings om deel te neem aan eksplorasie aktiwiteite (die soektog na nuwe hulpbronne, kennis en vaardighede), as gevolg van die operasionele fokus op die eksplorasie van huidige hulpbronne, kennis en vaardighede. Om die hernuwingsdilemma te bowe te kom, het hierdie studie die verwantskap tussen interne korporatiewe projekontwikkeling (*internal corporate venturing*) en korporatiewe hernuwing ondersoek om te bepaal of korporatiewe projekontwikkeling gebruik kan word as 'n instrument om korporatiewe hernuwing te inisieer en die hernuwingsdilemma te bowe te kom.

Die studie het gebruik gemaak van 'n kwalitatiewe, gemengde-metode navorsingsmetodologie en het die navorsingsprobleem in twee fases ondersoek. Die eerste fase van die studie het Begronde Teorie (*grounded theory*) gebruik om 'n teoretiese raamwerk voor te stel, wat illustreer hoe interne korporatiewe projekontwikkeling gebruik kan word as 'n strategiese proses wat eksplorasie en eksplorasie aktiwiteite effektief sal balanseer, deur die benodigde skakel meganisme te verskaf tussen 'n onderneming se korporatiewe konteks en hul eksterne omgewing, wat die onderneming in staat stel om korporatiewe hernuwing te inisieer. In die tweede fase van die studie is die voorgestelde teoretiese raamwerk geassesseer, deur die teoretiese raamwerk te vergelyk met 'n gevallestudie wat 'n interne korporatiewe projekontwikkelingsprogram by 'n gevestigde, finansiële dienste onderneming in Suider Afrika te vergelyk.

Gebaseer op die vergelyking tussen die voorgestelde teoretiese raamwerk en die gevallestudie, maak hierdie tesis die gevolgtrekking dat interne korporatiewe projekontwikkeling teoreties gebruik kan word om die hernuwingsdilemma aan te spreek. Dit was egter nie moontlik om hierdie proposisie te bevestig tydens die gevallestudie ondersoek nie, as gevolg van die stadium in die korporatiewe projekontwikkelingsproses waar die onderneming in die gevallestudie hulself tans bevind nie. Die gevallestudie het egter getoon dat interne korporatiewe projekontwikkeling die onderneming se vermoë om hernuwing te

iniseer verhoog, weens die vermoë wat interne korporatiewe projekte het om hulpbronne, kennis en vaardighede vanaf die onderneming te gebruik om unieke hulpbronne, kennis en vaardighede te skep.

Sleutelwoorde: Interne korporatiewe projekontwikkeling, Korporatiewe Hernuwing, innovasie en Korporatiewe entrepreneurskap

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List of abbreviations

ICV	Internal Corporate Venturing
CE	Corporate Enterprise
DBSA	Development Bank of Southern Africa
PPP	Public Private Partnership
PC	Personal Computer
BSC	Balanced Score Card
SME	Small and Medium sized Enterprise
CEO	Chief Executive Officer

Chapter 1: Nature and scope of study

1.1 Introduction

Throughout the entrepreneurship and strategic management literature, it is widely acknowledged that innovation is instrumental in gaining competitive advantage (Drucker, 1985; Pittaway, 2001). However, one of the major problems faced by today's firms is that, as they mature in their competitive position, the need for innovation becomes greater, while the ability to generate innovation lessens (Drucker, 1985; Block & MacMillan, 1993; King, 2002).

Plausible explanations for this phenomenon are provided by the venture life cycle and the rent cycle. The venture life cycle has been described by Nieman, Hough and Nieuwenhuizen (2003), in six distinct stages of organisational development: the pre-start up (incubation), the start-up, the growth, the maturity, the decline and, unless some form of strategic renewal takes place, the death stage. The final two stages usually result from market threats, which emerge as environmental changes occur in the form of the development of new technologies or the converging of industries (Kola-Nyström, 2005). In other words, these changes in the competitive environment have the potential of rendering current business models or technologies obsolete and can cause a competitive death, which result in the closure and failure of a firm.

This phenomenon has also been described by Darroch, Miles, and Paul (2005) as the rent cycle, whereby firms compete away the economic surplus rent¹ of an innovation by imitating the original innovation. To take a simple example, assume that the firm who first marketed personal computers (PCs) initially had exclusive access to all the profit potential from the innovation. This exclusive access allowed this firm to sell its products at high profit margins. However as other firms started to enter the market for PCs (by imitating the original innovation) they captured part of this market. Simple economics state that profit margins

¹ Economic rent is the difference between the income realised from the use of economic factors of production (an innovation in this case) and the cost of putting those factors to use (Darroch, *et al.*, 2005)

decrease as competition increases. In the above example, this translates into less economic rent for all PC manufacturers. This act of imitating an innovation to gain a part of the rent is called Austrian rent seeking (Darroch *et al.*, 2005). Therefore, the activity of competing for the profit potential of an innovation results in a reduction of the overall profit potential available from an innovation. Once competition has increased to such an extent that a market is saturated, and all of the economic rents that an initial innovation created have been competed away, a new disruptive innovation is needed or some firms must leave the market (die a competitive death).

For clarification, a new disruptive innovation entails that an entrepreneur creates new rents by applying his invention to productive means in a new market (Darroch *et al.*, 2005). Continuing with the example above, the invention of the portable computer disrupted the market for PCs because some consumers used portable computers as substitutes for personal computers. However, this innovation also created a new market with new profit generation potential; for example, a new market was created for business executives who needed a portable computer for travelling as well as a PC in the office. The process whereby a new disruptive innovation replaces the old innovation and creates new rents (referred to as Schumpeterian rents) is called creative destruction.

The above two concepts of the venture life cycle and the rent cycle imply that, as a firm grows from an entrepreneurial start-up to a mature firm, it eventually enters the final stages of its life cycle, either because of fundamental changes in the environment or because all Austrian rents are competed away (Darroch *et al.*, 2005). At this stage, a firm requires the properties of a disruptive innovation to survive, which suggests that firms must undergo some form of renewal.

1.2 Rationale and problem statement

Despite the need for innovation and renewal, numerous studies indicate that established firms are often limited in their ability to generate innovation and undergo the needed renewal (Sanchez, 2001; Dushnitsky & Lenox, 2005a; Lichtenthaler, 2005).

Firms are often unable to stay competitive, typically due to their own vast resources that become ineffectively used along with the internal bureaucracy and an increasingly inflexible culture that develops as a necessity to manage a larger firm (Kola-Nyström, 2005:29). Benady (2005) for instance notes that the very success of a large firm often depends on the discipline inherent to its systems, its ability to leverage economies of scale and its

hierarchical policies and structures. However, with time, the development of bureaucracy and inflexible organisational culture can leave a firm slow, sluggish, and unable to respond to new threats and opportunities (Morris, Kuratko, & Covin, 2008).

This incapacity to compete is further aggravated by the turbulent, dynamic, and ever-changing external business environment. This turbulence and dynamism are a result of various changes such as globalisation, deregulation, disintermediation, and the improvement in telecommunications, that have occurred over the last few decades (Nieman *et al.*, 2003). These changes increase the pace at which firms progress through their life cycles, while some firms find it difficult to instigate the internal change needed to cope with turbulent environmental conditions. Said differently, established firms often perceive renewal and change as much riskier than the status quo (Kola-Nyström, 2005:37). However, such an environment leaves firms with little choice but to respond with a strategic approach that is flexible and innovative (Pittaway, 2003; Leibold, Prost, & Gibbert, 2002).

Therefore, the challenge that established firms face today is to re-establish their competitive advantage and regain market share in light of changing and turbulent business environments. Corporate renewal has become mandatory; however, some firms struggle to engage in it (Kola-Nyström, 2005). This thesis defines this inability of firms to instigate renewal, despite the need for it, as the *renewal dilemma*.

The renewal dilemma can be overcome, as firms such as Intel, Nokia, 3M, Johnson-&Johnson, Siemens, and Kodak have proven. These firms have shown that dying a competitive death can be avoided by becoming more flexible through applying corporate entrepreneurship (CE) to institutionalise change and create an innovative and entrepreneurial environment within a firm (Mason & Rohner, 2002). By becoming more flexible and internalising change, opportunities are identified, ideas are allowed to flourish, and the destructive innovation needed to renew a firm can be developed (Pittaway, 2001; Miles, Paul, & Wilhite, 2003). Taking this into consideration it can be inferred that CE can potentially prove to be a solution to the renewal dilemma.

As a field of study, CE is a sub-field of entrepreneurship and has been an evolving research area for a number of years (Schildt, Maula, & Keil, 2005). The field has created interest from both scholars and practitioners based on the increased realisation that entrepreneurship could take place within established firms (Pittaway, 2001; Schildt *et al.*, 2005). With this increased interest, CE has developed into three main focal areas: the individual corporate entrepreneur and his or her characteristics, the entrepreneurial orientation of a firm, and

new venture creation and growth by a firm (Antoncic & Hisrich, 2003). This last area has also been referred to as corporate venturing (Block & MacMillan, 1993; Burgelman, 1983).

As a means of applying CE, Internal Corporate Venturing (ICV) has been found to be a well-suited means of overcoming the inability of large firms to instigate the change and innovation needed in turbulent competitive market environments (Kola-Nyström, 2005; Burgelman, 1983; Chesbrough, 2000)². However, despite the unique opportunity provided by corporate venturing to contribute to a firm's renewal efforts, the causal linkages between corporate venturing and renewal are still poorly understood. (Kola-Nyström, 2005; Block & MacMillan, 1993; Keil, 2002).

Hence, the research problem is the following:

How can an internal corporate venturing programme be used as a tool to instigate sustained corporate renewal?

This problem statement encompassed the goals and objectives of this study as outlined in the following section.

1.3 Objectives of the study

The main objective for this study was to explore the relationship of ICV to corporate renewal within an established firm context (refer to section 2.3). As a secondary objective, the study aimed to use the understanding of the relationship between ICV and renewal to assess if ICV could be used to overcome the renewal dilemma.

To contribute to the understanding of this relationship, this thesis took a conceptual approach by developing a proposed theoretical framework that can be used to assess and analyse corporate venturing as it relates to strategic renewal in practice. The goal is to draw upon the theoretical principles of strategic management, corporate entrepreneurship, and the corporate venturing process, in order to create a better understanding of how ICV can

² Refer to section 2.8

lead to corporate renewal. To assess if ICV could be used to overcome the renewal dilemma, the theoretical framework was compared to the experiences of an established firm in Southern Africa, using a case study design. Before the literature and methodology can be discussed in more detail, it is necessary to define the terms used in this study.

1.4 Defining key concepts and terms

This thesis represents corporate venturing as a programme for managing a portfolio of corporate ventures with the purpose of instigating innovation and renewal. This involves the process of allocating, using, re-combining, and creating resources, knowledge, and competence. The corporate venturing process also includes organisational learning and a dynamic set of relational aspects between the environment and these resources, knowledge and competencies that occur during the creation of new ventures. Therefore, to avoid confusion and to describe this process more clearly the general terms and definitions used within this thesis are presented subsequently.

1.4.1 Entrepreneurship

Entrepreneurship refers to the Schumpeterian process³ of creation and/or recognition of new opportunities, the development of new resource combinations to exploit these opportunities, as well as the facilitation of the changes and new organisational forms needed to create economic rent from the opportunity (Morris *et al.*, 2008; Van Vuuren, Gantsho, & Verwey, 2006; Tambwe, 2005). This study therefore views entrepreneurship as the process whereby a firm is created or innovation is brought about (Sharma & Chrisman, 1999).

1.4.2 Corporate entrepreneurship

Corporate entrepreneurship (CE) is a multidimensional concept whereby entrepreneurship takes place within an already established firm. CE provides the support needed for the development and exploitation of innovations within a firm. As mentioned before corporate entrepreneurship can be seen as consisting of the individual corporate entrepreneur and his

³ The process whereby creative destruction is initiated by converting an idea on invention into a successful innovation as described by the economist Joseph Schumpeter (1950)

or her characteristics, the entrepreneurial orientation of a firm⁴, innovation, and corporate venturing (Antoncic & Hisrich, 2003; Sharma & Chrisman, 1999). Therefore, CE is a process brought into practice through the multifaceted undertakings of a firm's innovation, venturing, business development, and renewal activities (Maes, 2006:1). Formally, this study accepts the definition of Sharma and Chrisman (1999:18) who view corporate entrepreneurship as “the process whereby an individual or group of individuals, in association with an existing organisation, create a new organisation or instigate renewal or innovation within the organisation”.

1.4.3 Resources

Resources are the basic inputs that a firm uses in its production processes (Chandler & Hanks, 1994:34). These are firm specific assets (tangible and intangible) used to conceive and implement strategies and can include items such as capital equipment, organisational processes, information, knowledge, competence, skills of individual employees, finance, and brand names. (Chandler & Hanks, 1994:34; Kola-Nyström, 2005:25). Viewed from the perspective of the resource based theory, the unique combination of a firm's resources and their inter-relationships constitutes a firm's competitive position (Raub, 2001). This is elaborated on in section 3.2.

1.4.4 Knowledge

Knowledge is an organisationally embedded and strategic resource. It is rooted in the value systems of individuals and can be defined as a set of beliefs about the relational aspects between the antecedents to and outcomes of tasks or events (Nonaka, 1994:15; Sanchez, 2001; Kola-Nyström, 2008; Weber & Weber, 2006). According to Kola-Nyström (2005:26-27), knowledge differs from most other resources in three important ways: firstly it is tacit, meaning that it is implicitly understood but not expressed directly, secondly it can be applied to different product categories and thirdly it is organisationally embedded, which makes it difficult for competitors to imitate. Organisational knowledge “exists when individuals in an organisation share a set of beliefs about causal relationships that enable them to work

⁴ Entrepreneurial orientation includes renewal, innovation, risk taking, pro-activeness, and competitive aggressiveness (Antoncic & Hisrich, 2003).

together in doing something” (Sanchez, 2001:5). This thesis therefore views knowledge as a strategically important resource that forms part of a firm’s competitive advantage. This is elaborated on in section 3.2.

1.4.5 Capabilities

A firm’s capabilities are a function of its ability to organise itself into a knowledge-creating system resulting from the institutionalisation of a firm’s resource combinations (Greene, Brush, & Hart, 1999:107; Vanhaverbeke & Kirschbaum, 2003:1). Sanchez (2001:7) defines capabilities as “repeatable patterns of action that an organisation can use to get things done”. This thesis views capabilities, as a firm specific ability to organise and use the knowledge pertaining from a firm’s resource combinations.

1.4.6 Competence

A firm’s competence is a complex organisational property resulting from organisational learning and represents the skills that add unique value to a firm's products or services (Zahra, Nielsen, & Bogner, 1999). This thesis views competence as firm’s ability to coordinate the deployment of specific combinations of resources and knowledge in such a way that it achieves a firm’s goals and objectives (McGrath, Venkatarman, & MacMillan, 1994; Raub, 2001; Sivula, Van Den Bosch, & Elfring, 2001:93). When these competencies are essential for the achievement of a firm’s goals, they are known as core competencies (Greene *et al.*, 1999:107).

1.4.7 Endowments

To acknowledge the inter-relationship between resources, knowledge and competence (Sanchez, 2001) and to ease collective reference to these concepts, this thesis uses the term ‘endowments’ to collectively refer to resources, knowledge and competencies.

1.4.8 Organisational learning

“Organisational learning is often understood as the process by which a firm acquires knowledge, processes and maintains it, and then uses or exploits it” (Keil, 2004:804). Organisational learning can therefore be seen as the process of acquiring, creating, codifying, diffusing, and absorbing knowledge and competence to form part of the firm (Merali, 2001:44-45; Kola-Nyström, 2005:86).

The process of organisational learning occurs when the individuals in a firm collectively interact with the context and the environment of a firm (Kola-Nyström, 2005:86) and results in a change in the beliefs about the network of relational aspects that forms the combined knowledge and competence base of a firm (Sanchez, 2001:5). The process is cyclical in nature because organisational learning occurs within the organisational context⁵ (its current knowledge base and structures) and learning in turn affects this organisational context (Kola-Nyström, 2005:86).

1.4.9 Corporate renewal

Renewal refers to the transformation of firms through the rejuvenation of the key concept, ideas and assumptions on which they are built (Guth & Ginsberg, 1990). In other words, it refers to changes in, and the adaptation of, a firm's core competence and business model (Volberda, Baden-Fuller, & van den Bosch, 2001:162; Maes, 2006:2; Kola-Nyström, 2008:163).

This thesis views renewal as a competence building process beginning with the identification and definition of a firm's existing competencies and an analysis of how they are used. After determining how existing core competences are used and how a firm functions in relation to its environment, strategic objectives are formalised and the new competencies needed to meet these objectives are defined. Implementing the strategy to reach these strategic objectives requires that a firm obtains and creates new competence as well as adapts its existing competence, resulting in the adaptation of a firm's business model to its environment (Kola-Nyström, 2005:36).

A key element in corporate renewal is fundamental and lasting change (Covin & Miles, 1999). This change encompasses changes in business or corporate level strategy, a firm's character and performance, a firm's relation to the environment (customers), processes (configuration of technology), structures, systems and routines (decision making, information, human resources) as well as financial outcomes and individual and organisational behaviour (Kola-Nyström, 2005:13). In simpler terms, renewal involves

⁵ See Section 2.3

changes in a firm's internal market and technology competence, its culture, and its business model, collectively referred to as a firm's corporate context (see section 2.3).

Furthermore, in the context of this study renewal is seen to occur only when the outcome of the changes is the alignment of a firm's corporate context and its external environment. This means renewal has occurred successfully when the changes in a firm's business model, culture, market competence, and/or technological competence result in a re-alignment with a firm's external environment. The concept of renewal will be discussed in more detail in section 3.2, for now it is enough to note that this study defines organisational renewal as follows:

Organisational renewal is the strategic process that results in the fundamental and lasting changes necessary to align a firm with its operating environment.

1.4.10 Corporate venturing

In section 2.2 the definition of corporate venturing is discussed in more depth. Within the context of this study, corporate venture constitutes an entrepreneurial process that leverages corporate resources in the creation of a new product, service, market or process. Corporate venturing can be sub-divided into external or internal CV and into direct and indirect depending on whether a firm acquires an equity stake in the venture or starts it from scratch.

1.5 Methodology

The first stage of the study uses the Grounded Theory approach to qualitative research (Glaser & Strauss, 1967). This method was chosen because of its applicability and focuses on the development of theory rather than theory testing or assessment (Steyn, 2003; Moghaddam, 2006). The first phase involves codifying, categorising and analysing the available literature, organising the data, and defining an appropriate research question. This leads to the development of a theoretical framework (or first "theoretical case"). Once this was completed, the unit of analysis is defined and the theoretical framework synthesised to an assessable set of propositions, with the help of a personal interview with an international expert in the field of corporate venturing and renewal. This theoretical framework also serves as a basis for analysing data and interpreting the findings of the second stage (Kola-Nyström, 2005).

In the second stage, the study borrows from the replication logic and investigates internal corporate venturing in an established financial services firm as a case study where similar results to those proposed in the theoretical framework were expected (Yin, 1993). The case study method was chosen because of its ability to improve the understanding of theoretical frameworks in the practical context in which the case takes place and because it provides a systematic way to gather empirical data from the practical cases (Kola-Nyström, 2005:20). This phase involves gathering data relating to the synthesised propositions by means of personal interviews with respondents involved in the ICV efforts of the case chosen.

To summarise, in the first stage of the mixed-method methodology, the research question was developed and the theoretical framework (or first case) was conceptualised using the Grounded Theory methodology. The unit of analysis was then defined based on the research question that emerged. Thereafter the theoretical framework was synthesised into a testable set of propositions. In the second phase, the study borrows from the replication case study methodology to gather data by means of personal interviews, which allows for the comparison of the outcomes of ICV as found in the case study to the outcomes proposed in the theoretical framework. The next section provides a summary of the structure of this thesis.

1.6 Structure of the thesis

This thesis is structured into six chapters as outlined in Figure 1.1.

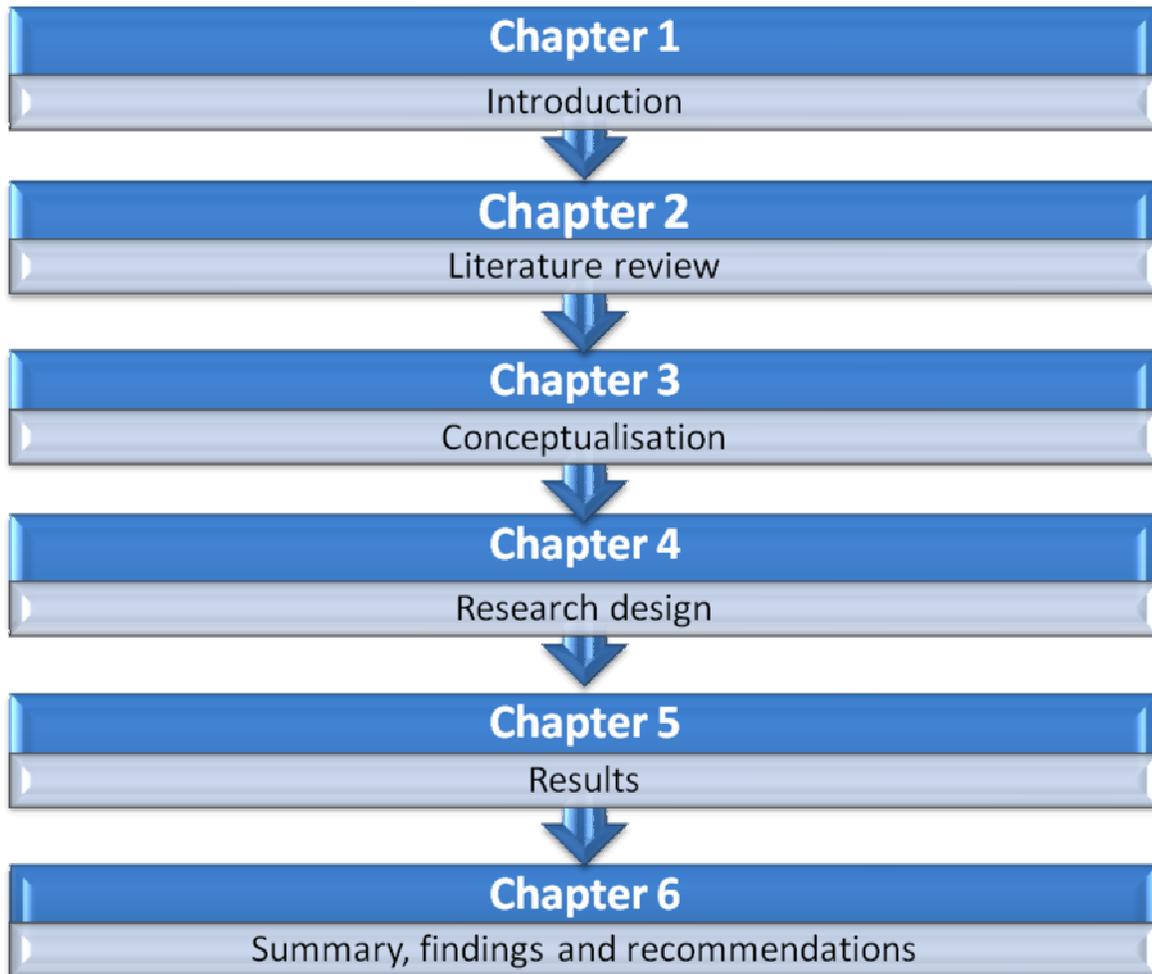


Figure 1.1: Structure of the thesis

As shown in Figure 1.1 the thesis is structured as follows

1.6.1 Chapter 1: Introduction

This chapter describes the research problem and the rationale and objectives of the study and defines the concepts and terms used. It also provides an overview of the methodology used within the study and a short outline of the structure of the thesis.

1.6.2 Chapter 2: Literature review

The second chapter reviews the literature by placing corporate venturing within the discipline of CE, organisational renewal and a firm's corporate and innovation context. This chapter also defines corporate venturing and outline the advantages thereof, the ICV process, and clarifies the renewal dilemma. This chapter provides a holistic view of corporate venturing and serves as input for building the theoretical framework in Chapter 3.

1.6.3 Chapter 3: Conceptualisation

The proposed theoretical framework of how corporate venturing can act as a tool for continuous corporate renewal is presented. This chapter binds the key themes that arose from the literature review by bringing the ICV process and corporate renewal together. The chapter furthermore comments on the theoretical framework's effectiveness, extends, and elaborates upon the theoretical framework by taking the context of corporate venturing, its dynamics, and the external environmental dynamics of the environment into account.

1.6.4 Chapter 4: Research design

This chapter outlines the qualitative research design used in this study, it explains how the research question was developed and outlines the two research methods used within the study. The first part of the chapter describes how the research question and propositions were developed in the form of a theoretical framework (or first case) using the Grounded Theory methodology. The unit of analysis is then defined based on the research question that emerged. Thereafter the framework is synthesized into set of propositions that can be used to assess the theoretical framework. In the second phase, the study borrows from the replication case study methodology to gather data and assess the propositions.

1.6.5 Chapter 5: Results

An overview of the case study of ICV at the Development Bank of Southern Africa (DBSA) is provided, and the background to ICV at the Bank as well as the process whereby it was implemented is described. Following the description the results of the case study are showed by comparing the internal venturing effort at the Bank to the theoretical framework in terms of the propositions synthesised in Chapter 4.

1.6.6 Chapter 6: Summary, findings and recommendations

The final chapter concludes the study by summarising the purpose of the study and research methodology in a few words. The chapter also outlines the findings of the study and makes some recommendations. The chapter also briefly discusses the limitations of the study and concludes with a short summary of the thesis.

1.7 Summary

This chapter outlined the nature and scope by described the research problem and the rationale and objectives of the study and defines the concepts and terms used. It also provides an overview of the methodology used within the study and a short outline of the structure of the thesis. The following chapter provides a review of the corporate venturing literature.

Chapter 2: Literature Review

2.1 Introduction

This chapter provides a review of the literature on corporate venturing. The main aim is to discuss corporate venturing as it relates to the rationale and objective of this study. The literature review serves as background to the development and conceptualisation of a theoretical framework of how Internal Corporate Venturing (ICV) can lead to corporate renewal. Because the research design follows the Grounded Theory methodology, explained in Chapter 4, the literature review will not bring about any hypothesis (Moghaddam, 2006) but rather a background for the conceptual development of the proposed theoretical framework, as presented in Chapter 3.

2.2 Defining corporate venturing

Corporate venturing has been referred to and confused with many different terms, such as corporate new venture divisions, internal innovation, internal venturing, corporate enterprise, new business development, and intrapreneurship (Block & MacMillan, 1993; Sharma & Chrisman, 1999; Pittaway, 2001). Therefore, the term corporate venturing requires clarification.

The reason for the confusion stems from the different interpretations of the term 'corporate venturing' that have evolved as a natural consequence of research. Indeed, researchers tend to define concepts in the context of their study and specific research question or goal.

A chronological overview of definitions is presented in Table 2.1.

Table 2.1 Definitions related to corporate venturing

Authors	Definitions
von Hippel (1977:163)	Viewed corporate venturing as “an activity which seeks to generate new businesses for the corporation in which it resides through the establishment of external or internal corporate ventures”.
Biggadike (1984)	Viewed a corporate venture as a business that requires new equipment, people or knowledge, and that markets a product or service that the parent firm has not previously marketed.
Ellis and Taylor (1987)	Viewed corporate venturing as the establishment of an independent unit of a firm that pursues a strategy, unrelated to that of the firm.
Block and MacMillan (1993)	Viewed a project as a corporate venture only when adheres to the following criteria: (a) it involves an activity new to the organisation; (b) is initiated or conducted internally; (c) involves significantly higher risk of failure or large losses than the firm's base business; (d) is characterised by greater uncertainty than the base business; (e) will be managed separately at some time during its life; and (f) is undertaken for the purpose of increasing sales, profit, productivity, or quality.
McGrath et al. (1994)	Viewed corporate ventures as entrepreneurial activities within an established organisation that attempt to apply innovations to the creation of products, markets, or to introduce process innovations.
Sharma and Chrisman (1999:19-20)	Viewed corporate venturing as an “organisation’s entrepreneurial efforts leading to the creation of new business organisations under the condition that they come from innovations that exploit new markets, or new product offerings, or both.”
Thornberry (2001)	Viewed corporate venturing as starting a business, which represents a significantly new product or market opportunity.
Altman and Zacharakis (2003:68)	Viewed corporate venturing as any form of business development activity or growth strategy which creates competitive advantage by leveraging resources to bring about transformation through renewal
Buckland, Hatcher, and Birkinshaw, (2003)	Viewed corporate venturing as models of business development whereby a firm takes up minority interests in a portfolio of small companies to benefit from them financially or strategically.
Curtis and Sharp (2005)	Viewed corporate venturing as a formal relationship between a venture and the company, whereby the company contributes resources or expertise to the venture and takes a share in the subsequent risks and rewards.
Markham, Gentry, Hume, Ramachandran, and Kingon, (2005:50-51)	Viewed corporate venturing as strategic mechanism to attract, qualify, and monetise value from assets that originate externally or are beyond a clear fit with the firm’s strategic focus”
Maes (2006:7)	Viewed corporate venturing as the efforts of a firm to diversify my means of the creation of new business.
Morris et al., (2008)	Corporate venturing includes various models of creating, adding to, or investing in new businesses. This can be accomplished through three implementation modes – internal corporate venturing, cooperative corporate venturing, and external corporate venturing.

From the definitions and interpretations presented in Table 2.1, it can be seen that there are similarities between the definitions. Most authors emphasise that corporate ventures, in their relationship with a firm, leverage corporate resources in one way or another to achieve their goals (Altman & Zacharakis, 2003; Salmenkaita, 2001; Thornberry, 2001). They also stress that corporate venturing is a set of entrepreneurial activities, undertaken by an established firm (Von Hippel, 1977; Block & MacMillan, 1993; Badguerahanian & Abetti, 1995; Sharma & Chrisman, 1999), and that corporate venturing entails a certain degree of innovation or newness for the firm that instigates it (Block & MacMillan, 1993; McGrath *et al.*, 1994; Badguerahanian & Abetti, 1995; Sharma & Chrisman, 1999; Thornberry, 2001). Before defining corporate venturing in the context of this study, it is purposeful to clarify what is meant by the newness or un-relatedness in the context of corporate ventures and the modes of corporate venturing available.

The few studies that do mention the degree of relatedness, newness or innovativeness argue that the presented opportunity should involve, at the very least, one of the following: new products, new services, or new processes (McGrath *et al.*, 1994; Sharma & Chrisman, 1999; Thornberry, 2001). In order for a venture to be considered a corporate venture Morris *et al.*, (2008) make use of a matrix that indicates that a firm needs at least some degree of newness on at least the market or the product, but not necessarily both. This is indicated in Figure 2.1.

Market focus of the entrepreneurial initiative	Market Creation				New Business
	New Market				
	Market Extension				
	Existing Market	Existing Business			
		Existing Product in Current Industry	Product Extension in Current Industry	New Product in Current Industry	New Industry Entry or Industry Creation

Figure 2.1: Defining new business
 Source: Illustrated in Morris *et al.*, (2008:83)

Figure 2.1 is interpreted to imply that for a project to be considered an innovative corporate venture, it should create a product, service, market, or process that is new to a firm. Within the context of this study, activities are also considered corporate ventures if they lead to new technology, business models, or culture for a firm (refer to section 2.3).

Furthermore, to allow for a more accurate definition of corporate venturing, the various modes of creating, adding to, or investing in new businesses that can be pursued need to be clarified. Corporate venturing can be conducted in various different ways. Hence, it is important to understand that various modes of corporate venturing exist (Kola-Nyström, 2005:19): corporate venturing can be conducted as internal corporate venturing (ICV) or as external corporate venturing and can be implemented either directly or indirectly. These modes of venturing are consequently discussed in more detail. Figure 2.2 provides an outline of the modes available to a firm to conduct corporate venturing.

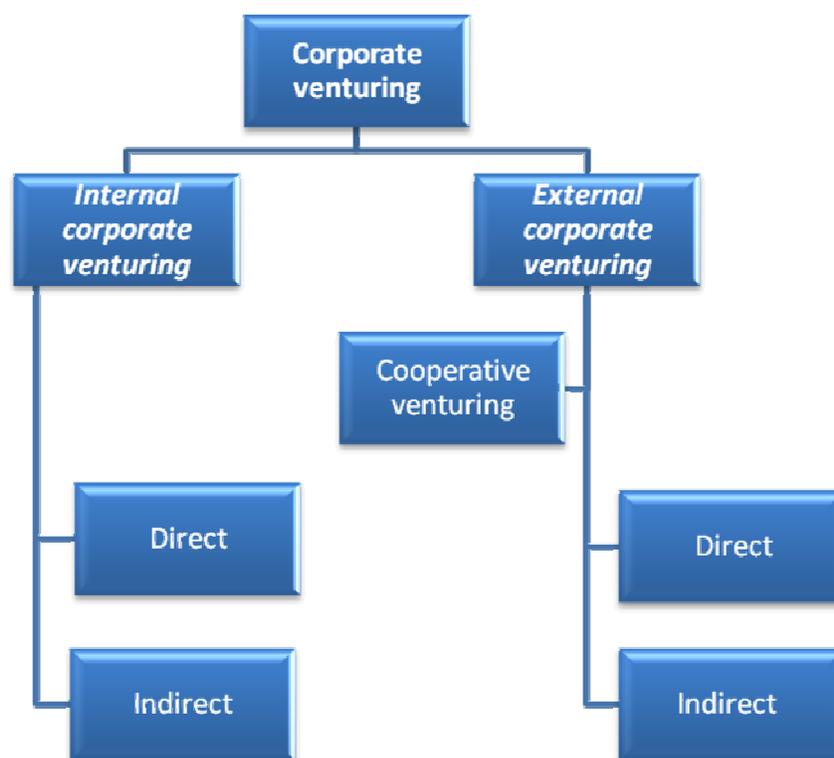


Figure 2.2: Modes of corporate venturing

Source: Illustrated adapted from Keil (2004), Kola-Nyström (2005) and Morris et al. (2008)

As shown in Figure 2.2 the modes of corporate venturing are as follows:

Internal corporate venturing: refers to those activities that reside within a firm's internal corporate context (Sharma & Chrisman, 1999; Maula, 2001; Zajac, Golden, & Shortell, 1991). These activities encompass the generation of ideas that typically reside within a firm (Birkinshaw & Hill, 2003; Morris *et al.*, 2008). However, this is not always the case as they can occasionally be operated as semi-autonomous entities that fall outside a firm's boundaries (Morris *et al.*, 2008). Therefore, to make this distinction, internal ventures are defined as those ventures funded and managed as part of the corporate context and that use resources that are mainly under the control of the firm (Kola-Nyström, 2005:18).

External corporate ventures: they originate outside a firm's internal environment (Maula, 2001; Von Hippel, 1977; Tambwe, 2005), and include the leveraging of external partners in the process of creating and developing new ventures (Keil, 2001a; Keil, 2004; Schildt *et al.*, 2005). Examples of external ventures are joint ventures, alliances, acquisitions, spin-offs, and corporate venture capital initiatives or investing in external start-up ventures (Markham *et al.*, 2005; Keil, 2004; Sharma & Chrisman, 1999). Therefore, external venturing is seen as the activity of jointly starting, investing in, or acquiring, new businesses created by parties outside a firm with an emphasis on creating strategic benefits for the firm acquiring them (Morris *et al.*, 2008; Kola-Nyström, 2005). To distinguish between the practice of creation of a new business and "buying into" a newly created business, Morris, *et al.* (2008) identify the concept of 'cooperative venturing' and a separate form of external venturing. They view cooperative venturing (also known as 'joint corporate venturing' and 'collaborative corporate venturing') as "the entrepreneurial activity in which new businesses are created and owned by a firm together with one or more external development partners" (Morris *et al.*, 2008:2).

Direct and indirect corporate ventures: In addition to classifying corporate ventures into internal venturing and external venturing, some authors also classify corporate venturing into direct and indirect. Venturing by means of an internal or external venture fund is classified as indirect venturing (Pittaway, 2003; Evald, 2003). Direct venturing is then defined as the direct purchase or acquisition of equity in a venture with the goal of further exploiting the venture (Pittaway, 2003; Evald, 2003).

Hence, corporate venturing can be classified as direct internal, indirect internal, direct external and indirect internal (Pittaway, 2003). This is summarised in Figure 2.3.

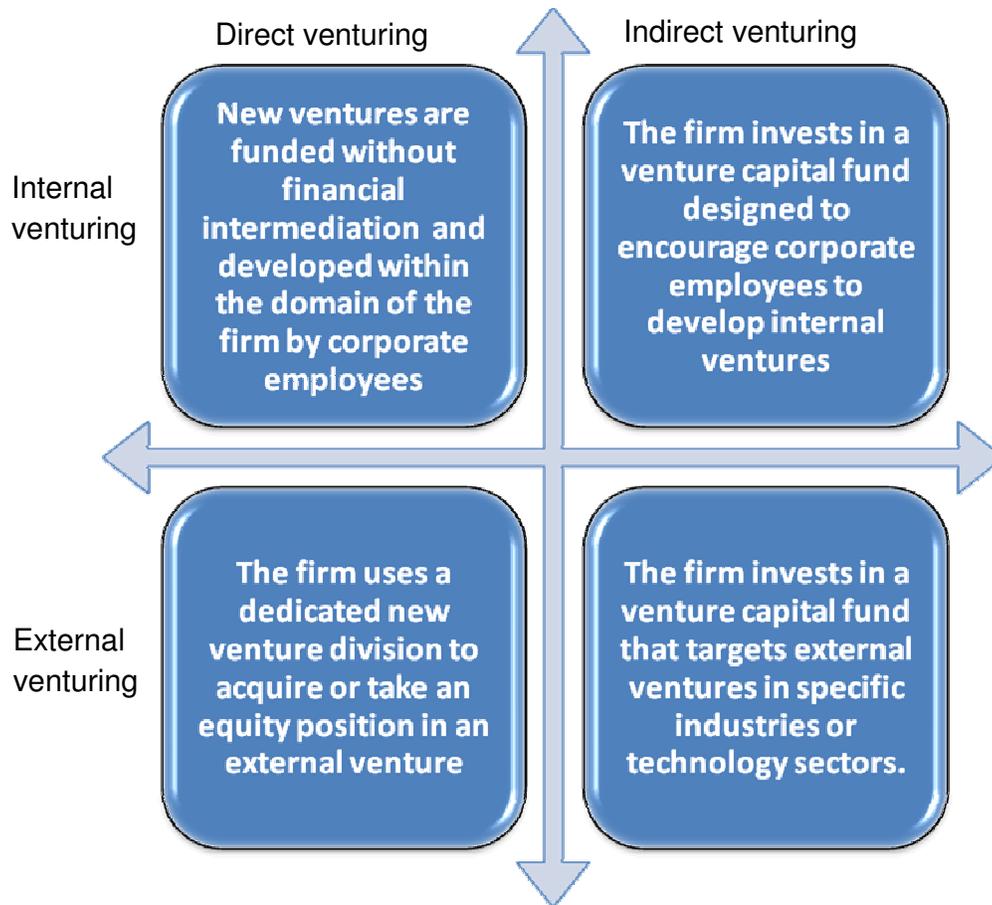


Figure 2.3 Types of corporate ventures
Source: Adapted from Pittaway (2003)

Therefore, within the context of this study, corporate venturing constitutes a set of entrepreneurial activities that are initiated by an established firm. Corporate venturing leverages corporate resources in the creation of a new product, service, market, or process (or new technology, business models or culture) that is new to a firm. The set of activities can be divided into external or internal depending on whether they originate from within a firm. They can also be classified into direct and indirect depending on whether a firm acquires an equity stake in the venture or starts it from scratch. With the concept of corporate venturing described in the context of this study, it is necessary to discuss the milieu in which venturing and renewal take place.

2.3 The context of renewal and venturing

This study is concerned with the milieu in which corporate renewal and internal venturing takes place. In this regard, this study adopts the view of Kola-Nyström (2005) whereby corporate renewal and venturing involves multiple but partially overlapping contexts.

As depicted in Figure 2.4, the corporate context, innovation context and venturing context form an overlapping milieu in which corporate venturing and corporate renewal takes place: Figure 2.4 shows that the corporate strategy dictates the corporate context. It is within the corporate context that a firm's business development strategy forms the innovation context. Within the innovation context in which the venturing strategy is formulated, the venturing context is established.

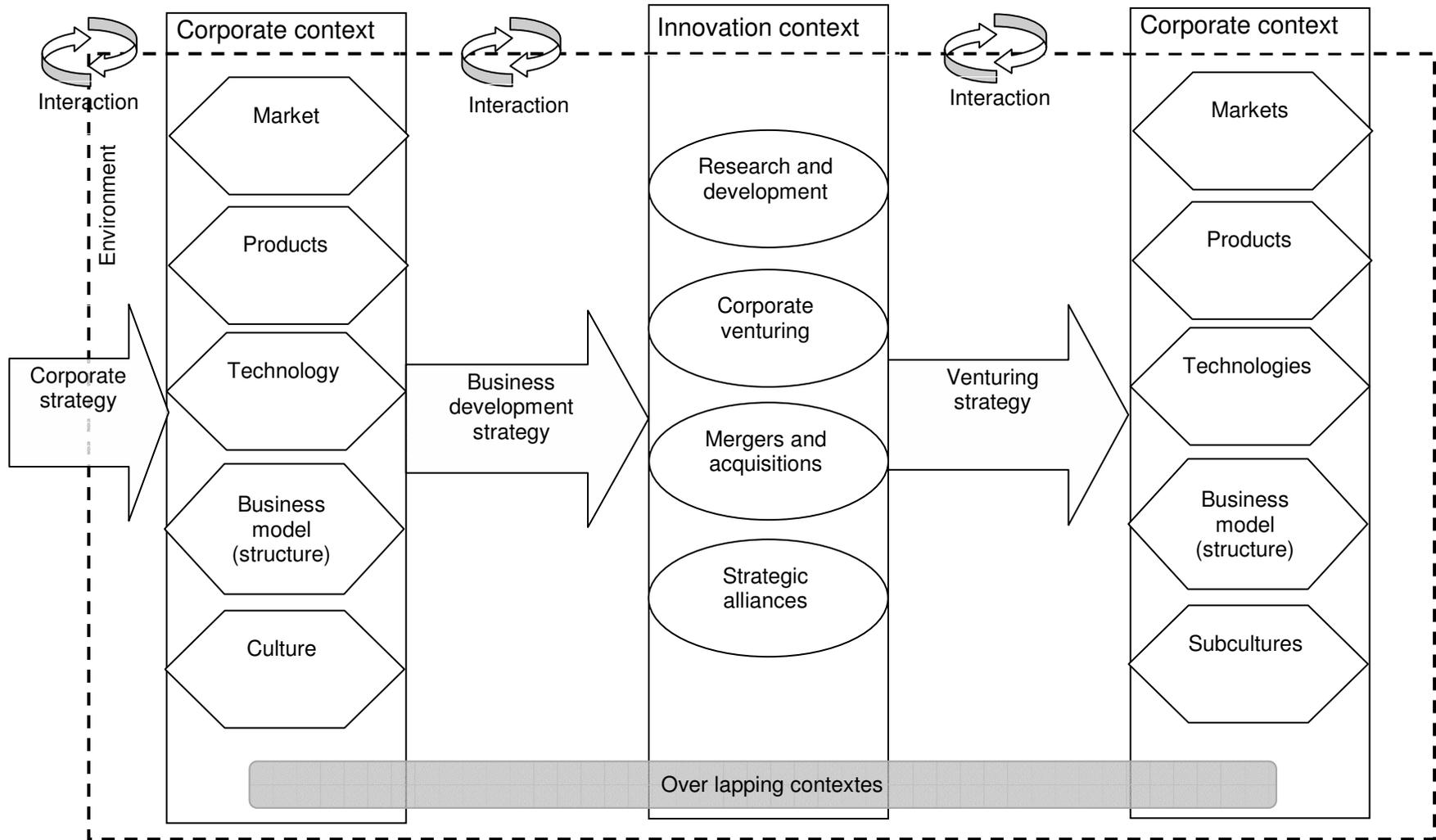


Figure 2.4: The context of corporate renewal and corporate venturing
 Source: Based on description from Kola-Nyström (2005:93-94)

Corporate context: The internal corporate strategic context (or simply the corporate context) of a firm refers to the scope and overall direction of the corporate strategy taken to meet the needs of a firm's markets and stakeholder expectations. It is within this context that a firm's existing endowment base is embedded and competitive advantage is gained through the chosen configuration of resources, knowledge and competence within a firm's environment (Kola-Nyström, 2005). This configuration is based on a firm's internal competencies, rigidities, and shortcomings (Kola-Nyström, 2005), which within this study comprises of a firm's markets, products culture, business model (structure) and technology as well as its interactions with the environment. Therefore, it is within a firm's corporate context that renewal takes place (Maes, 2006; Kola-Nyström, 2008).

Innovation context: Although not extensively discussed in this thesis, the innovation context is important for ICV and renewal. The innovation context overlaps with the corporate context. This context shapes a firm's business development strategy, which dictates how a firm plans to generate renewal and growth from business development tools such as research and development, mergers and acquisitions, strategic alliances and corporate venturing (Kola-Nyström, 2005). The innovative context is described as consisting of the business development or innovation strategy and the collection of business development tools as well as its interactions with the corporate context and the environment.

Venturing context: The venturing context overlaps with the innovation context and represents the location of a firm's venturing programme and the venturing strategy. In a similar vein to the corporate context, this study perceives the venturing context as consisting of the collective markets, products, cultures, business models (structures), technologies and sub-cultures of the portfolio of ventures as well as their interactions with the innovative and corporate context (Kola-Nyström, 2005). The next section discusses the advantages of corporate venturing before considering the reasons why firms engage in corporate venturing.

2.4 Advantages of corporate venturing

The literature on corporate venturing mentions a number of advantages concerning this activity. Corporate venturing can for instance offer more entrepreneurial culture, the expansion of its business as a business development strategy, and can create competencies for the firm. These are discussed below.

A key advantage corporate venturing can offer a firm is the anticipated effect it could have on a firm's culture. To engage in corporate venturing a firm either it needs a strong entrepreneurial culture in place or more likely, it has to create one since an entrepreneurial culture is vital to the success of corporate venturing⁶ (Knight, 1987). According to Evald (2003) and Knight (1987), the entrepreneurial culture needed for corporate venturing can trickle down to the rest of the firm and hence bring about a more entrepreneurial culture for the firm as a whole. In other words, the entrepreneurial culture needed in the venturing context can influence the culture throughout the firm in becoming more entrepreneurial.

Furthermore, venturing in itself can be used as part of a firm's business development strategy, meaning it can be used as a mechanism to get the parent firm into new business areas (markets, technology, products, business model) and expand its exploratory research efforts (Von Hippel, 1977; Priya & Viswanathan, 2005; Kola-Nyström, 2005). According to Salmenkaita (2001) in comparison to other development projects, corporate venturing also uses fewer resources and it can act as a catalyst for the development of business-building capabilities, while still focusing on the core business of a firm (Kola-Nyström, 2005:73). These advantages can be summarised by noting that corporate venturing can provide a platform for new business development, enabling entrepreneurial personalities to use their innovative capabilities in conjunction with other development tools to create new competencies for the firm (Backholm, 1999).

Corporate venturing also offers other advantages. For instance, through its relation with a corporate firm, a corporate venture has access to a firm's technology base, markets and physical and intellectual property, as well as other substantial value added services (Markham *et al.*, 2005; Dushnitsky & Lenox, 2005b; Block & MacMillan, 1993). Therefore, the relationship between the firm and the venture provides the venture with unique access to resources, as well as the firm's network, knowledge and competence (Backholm, 1999; Kola-Nyström, 2005). To enhance the understanding of the relationship between ICV and renewal, the next section briefly outlines the most frequent reasons firms engage in corporate venturing.

⁶ See section 2.6.1.2 for more detail.

2.5 Reasons for engaging in corporate venturing

The literature provides a number of reasons why firms will engage in corporate venturing (Pittaway, 2001). Amongst the more frequently mentioned reasons for corporate venturing are:

- a) To provide the firm with a window on new technology and markets (Curtis & Sharp, 2005; Markham *et al.*, 2005; Miller, Wilson, & Adams, 1988; Leder, 2005; Dushnitsky & Lenox, 2005a; Priya & Viswanathan, 2005). Having a window on new technology and markets, help to keep a firm abreast of changes that occur in its environment, and the opportunities and threats that might result.
- b) To grow the firm's existing business (Block & MacMillan, 1993; Markham *et al.*, 2005), by forming part of a firm's business development strategy.
- c) To generate future rents through the development of new and distinct competences (McGrath *et al.*, 1994; Darroch, Miles, & Paul, 2005). Corporate venturing provides the firm with the opportunity to develop and take advantage of new competencies.
- d) To counter threatening change in the firms environment (Priya & Viswanathan, 2005) and explore new opportunities, technologies or markets (Markham *et al.*, 2005).
- e) To use new venture development as an alternative means of diversification (Fast, 1978; Markham *et al.*, 2005). Corporate venturing allows firms to access alternative business areas.
- f) To experiment with new business models, distribution channels, and organisational structures (Markham *et al.*, 2005). This enhances the strategic options available to the firm.
- g) To retain innovative minded individuals (Brazeal, 1993; Priya & Viswanathan, 2005) by offering them an entrepreneurial working environment, which internal venturing can provide.
- h) For pure financial returns (Miller *et al.*, 1988).
- i) To utilise intellectual property (Leisure, Bolze, & Haley, 2001; Dushnitsky & Lenox, 2005b). For example, a technological innovation that was developed to improve a firm's internal processes can be utilised for commercial means through internal venturing.
- j) To renew the firm, which forms the focus of this thesis (Markham *et al.*, 2005; Pittaway, 2001; Altman & Zacharakis, 2003; Keil, 2001a).

Interestingly, many of these reasons can be related to renewal, for instance, the experimentation with new business models, the exploration of new technologies and markets, and threatening environmental changes could all have an impact on renewal in one way or another. The relationship between internal venturing and renewal will be discussed in more detail in section 2.8.

As mentioned in section 1.2 and section 2.2, ICV has been found to be a potential means of instigating the change and innovation and renewal needed in turbulent competitive market environments (Kola-Nyström, 2005; Burgelman, 1983; Chesbrough, 2000). Therefore, the following section 2.6 focuses the aspects of ICV.

2.6 Internal corporate venturing programme as a business process

The set of activities involved in ICV constitute a dynamic business process (Block & MacMillan, 1993; Leisure *et al.* 2001; Backholm, 1999; Thornhill & Amit, 2000; McGrath *et al.*, 1994). The next section portrays internal venturing as a business process by combining the six phases process of corporate venturing by Block and MacMillan (1993) and the two stages process view of external corporate venturing by Leisure *et al.* (2001).

Figure 2.5 depicts the six phases process view of internal corporate venturing as described by Block and MacMillan's (1993).

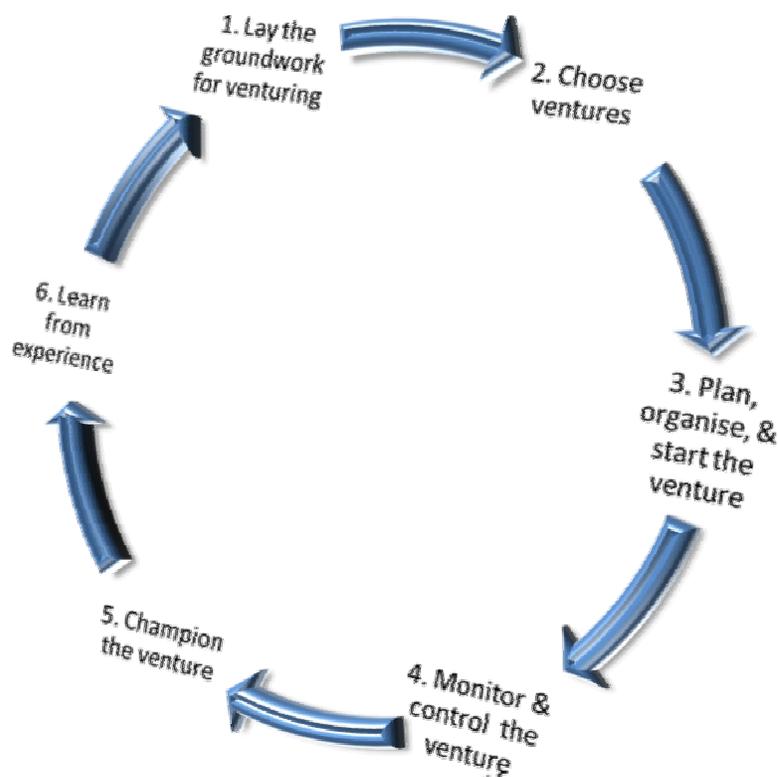


Figure 2.5: The Block and MacMillan (1993) phases of the internal venturing process
Source: Description by Block and MacMillan, (1993:6)

The first phase in Block and MacMillan's (1993) model shown in Figure 2.5 termed 'laying the groundwork' involves creating and managing the context in which corporate venturing occurs. In the second phase, the venture is chosen and the management team selected. The third phase involves planning, organising and starting the venture. Once the venture is operational, the venturing process needs to be monitored and controlled (phase four). The venture also needs to be championed through the internal politics of a firm (phase five). Finally, in phase six, the venture team and firm need to reflect and learn from the experience to improve chances of success in future. Block and MacMillan (1993) note that these phases are distinct from one another but do not necessarily occur in the sequence mentioned.

Although Block and MacMillan (1993) elaborate on the steps in their model, the distinction between the corporate venturing programme and the venturing process is not clear. Leisure

et al. (2001) provides a clearer distinction, conceptualisation corporate venturing as consisting of two main stages, setting up the venturing programme, and pursuing the best venture idea.

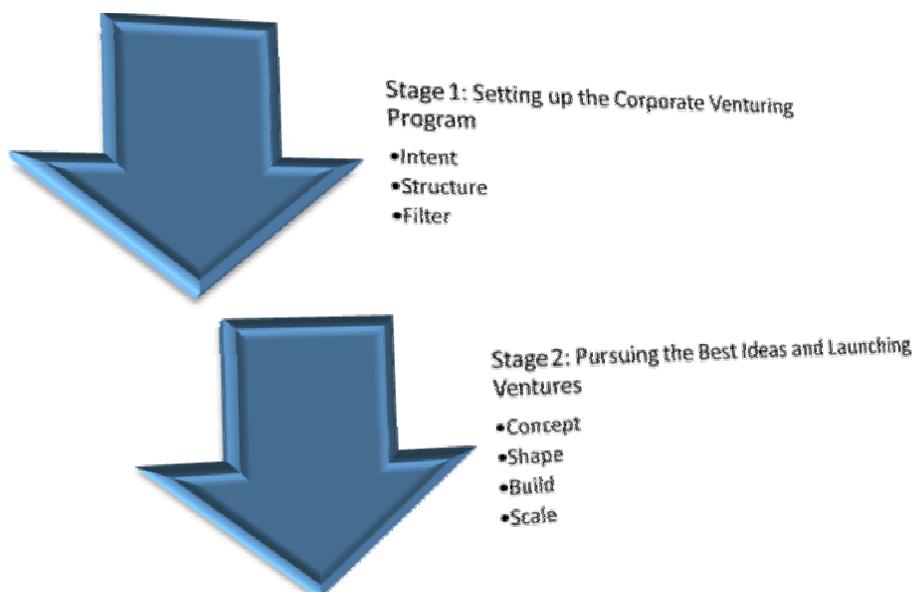


Figure 2.6: The Leisure, Bolze, and Haley (2001) stages of corporate venturing

Source: Adapted from Leisure et al. (2001)

As shown in Figure 2.6, both of these stages can be broken down into separate steps. Firstly, the corporate venturing programme is set up in terms of its intent, structure, and idea filter. Secondly, the best ideas are pursued and ventures launched. While the best ideas are pursued, the ventures' business concepts should be defined. Thereafter, the ventures are structured, their credibility built and the scale of the business expanded.

These two models of Block and MacMillan (1993) and Leisure *et al.* (2001) can be combined to represent ICV as a business process. Using a business process perspective enables firms to organise internal venturing activities into different phases and vest responsibility for the programme into senior management, while the responsibility of the venture and

venturing process can be given “mostly”⁷ to the venture manager (Von Hippel, 1977; Fast, 1978). In other words, by combining these two models the process of ICV is seen as consisting of seven phases, one of these phases being the venturing process. These phases are outlined in Figure 2.7.

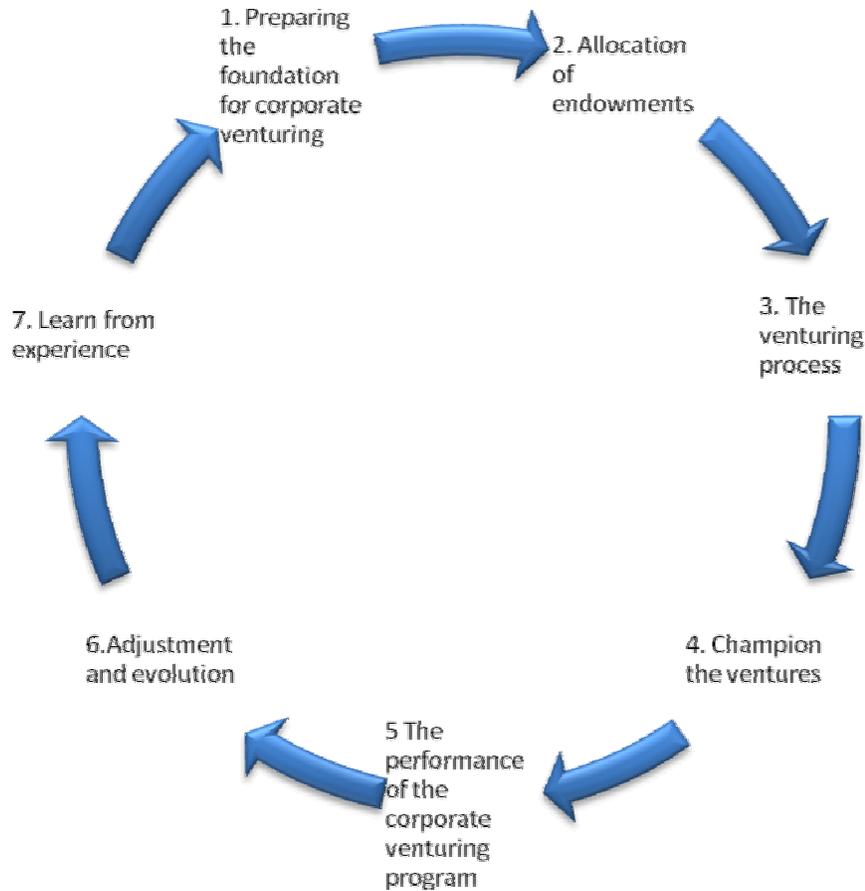


Figure 2.7: The phases of corporate venturing

Source: Adapted from Leisure et al. (2001) and Block and MacMillan (1993).

As illustrated in Figure 2.7 the different phases of corporate venturing are discussed next. Starting with the first phase, preparing the foundations for internal corporate venturing, the

⁷ Senior management still plays a vital role in the venturing process however the activities revolving around the venturing process is mostly the responsibility of the venture manager. This is discussed in more detail in section 2.6.3.

allocation of endowments (second phase) is then discussed. An extensive discussion is entered into regarding the venturing process (phase three) where after the role of the venturing champion (phase four), the venturing programme performance (phase five) and the adjustment and evolution (phase six) are discussed. Lastly this section concludes with a discussion of the learning that takes place during ICV before moving on to the renewal dilemma and the fundamental managerial conflict (refer to section 2.7).

2.6.1 Phase 1: Preparing the foundation for internal corporate venturing

In Figure 2.7, the first phase in the corporate venturing programme is preparing the foundation for ICV. Therefore, it is an important step and is discussed in some detail. During this phase, some prerequisites and issues need to be addressed before a firm can start corporate venturing.

2.6.1.1 Is internal corporate venturing appropriate?

Firstly, the actual decision to pursue an ICV programme needs to be considered. In this regard, Winters and Murfin (1988) note that corporate venturing is a corporate development tool that takes place alongside other options such as acquisitions, the growth of the core business, internal research and development, mergers, and strategic alliances. Therefore, when choosing which corporate development tool to use, corporate venturing programmes must be assessed in relation to the other alternatives (Markham *et al.*, 2005; Kola-Nyström, 2005)

Looking specifically at when ICV is the appropriate option to follow, Hoskisson and Busenitz (2002) note that internal venturing is a good choice when the opportunity, a firm wants to exploit, resides mostly within a firm's existing endowment base. Their argument is that ICV provides better protection of a firm's strategic assets by reducing the risk of the unwanted diffusion of novel and unique ideas to external parties while allowing a firm to exploit these ideas by leveraging the skills and competencies that were developed in its initial corporate context (Hoskisson & Busenitz, 2002). In other words, internal venturing should be considered alongside other innovation and development tools, as it is not suitable for every firm. However, for some firms, particularly for those wanting to exploit internally developed ideas that lie within their current skills and competence, venturing can be appropriate, provided the corporate culture is supportive of entrepreneurial behaviour.

2.6.1.2 Corporate culture

Once a firm has decided to pursue its business development goals using corporate venturing, the firm needs to ensure that its corporate culture is supportive of entrepreneurial activities. Corporate culture refers to the set of values, assumptions, and beliefs, shared by the members of a firm, which establish employee norms and expectations (Stafford, 2004:70). These values operate unconsciously and define a firm's view of itself and the environment (Kola-Nyström, 2005:29). Analysing the implications of corporate culture lies outside the scope of this thesis, nevertheless important aspects most relevant for corporate venturing are highlighted.

According to Elfring and Foss (1997), a culture that is supportive of entrepreneurial activities constitutes a culture that facilitates idea generation. Furthermore, a culture that promotes endowment sharing and learning is relevant for a firm pursuing corporate venturing (Kola-Nyström, 2005:76-77).

Entrepreneurial culture however, is not only a prerequisite for corporate venturing, but corporate venturing in itself can also contribute to building an entrepreneurial culture and environment (Kola-Nyström, 2005). Hence, the success of a venture depends, in a large part, on the firm's ability to develop an entrepreneurial environment rather than on the environment itself. In the words of Evald (2003:5), "internal CV [corporate venturing] can make autonomous entrepreneurial behaviour and innovative activities more acceptable in the parent firm and bring about desirable cultural change and human resource development". In brief, a firm should create a supportive corporate culture for internal venturing, and make sure that an environment favourable for idea generation and innovation is created (Kola-Nyström, 2005:77).

2.6.1.3 Strategy and strategic fit

Another important consideration before a firm can commit itself to internal venturing is the strategic or corporate context of the firm, the firm's business development strategy, and the venturing strategy within its venturing context (Block & MacMillan, 1993; Tidd & Taurnis, 1999; Kola-Nyström, 2005). Because corporate venturing is one of the business development strategies available to the firm, and is greatly influenced by the firm's

corporate/strategic context (Kola-Nyström, 2005)⁸, defining and managing the venturing strategy so that it fits with both the strategic and innovation context, is an important part of preparing the foundation for ICV (Winters & Murfin, 1988; Markham *et al.*, 2005).

Markham *et al.* (2005), proclaim that the starting point for successful corporate venturing is a coherent venturing strategy. A firm should therefore formulate a specific strategy to clarify how it plans to create, capture, and deliver value from its venturing efforts and define the fundamental reason why it is engaging in venturing (Block & MacMillan, 1993; Markham *et al.*, 2005).

The fit between the venturing context and the corporate strategic context of a firm is also an important consideration (Thornhill & Amit, 2000; Gompers, 2002), because the strategic context should set the direction of a firm while the venturing context should act within those guidelines to ensure a strategic fit between venturing and the firm (Kola-Nyström, 2005). In other words, there needs to be strategic fit between a firm's market, culture, business model (structure) and technology and the collective markets, cultures, business models (structures) and technologies of the venture portfolio (Tukiainen, 2004:35). Therefore, when a firm wants to engage in internal venturing, it should follow a strategy linked to clearly defined objectives that takes into account the fit between the contexts in which venturing takes place. Once a firm has ensured that there is a strategic fit between its corporate, innovation and strategic context, a venture programme management structure should be put in place.

2.6.1.4 Venture programme management

Various authors have argued that the proper management of internal venturing is of crucial importance (Tidd & Taurinis, 1999; Kola-Nyström, 2005; Burgelman, 1983). Indeed, mismanagement, more often than not, leads to the failure of corporate attempts at internal venturing (Block & MacMillan, 1993; Campbell & Park, 2004).

To avoid mismanagement, Block and MacMillan (1993) observe that the responsibility for managing the programme should be vested in senior management and not in the venture manager. They recommend the decisions regarding ICV to be made on two levels. Senior

⁸ Refer to section 2.3.

management should be responsible for managing the overall venturing programme, while the venture manager should be responsible for the design, and monitoring of individual ventures and the venturing process level.

This implies that decisions regarding internal venturing need to be made at the overall programme level but keeping the individual ventures in mind. Therefore, before embarking on venturing a firm needs to know who will be responsible for the internal venturing programme and who will be responsible for the venture as well as realise that decisions regarding internal venturing have to be taken at those two levels. After the overall responsibilities of these two levels have been allocated, decisions regarding the structure of the venture programme can be made.

2.6.1.5 Deciding on the structure used

Lengnic-Hall (1991) suggests that a formal organisational structure design for an innovation programme is a necessary precondition, if a firm wants to sustain a stream of innovations from its CE efforts. Applying this logic to ICV, this implies that a firm needs a formal structure if it plans to instigate internal venturing.

In choosing a venturing structure, Priya and Viswanathan (2005:4) suggest that a fundamental factor to consider is how closely related the activities of the ICV programme will be to the core business of a firm. They suggest that the decision should be made based on the trade-off between the need to leverage existing competencies and the desire to learn new competencies, using a matrix model adapted from Tidd and Taurinis (1999), as depicted in Figure 2.8.

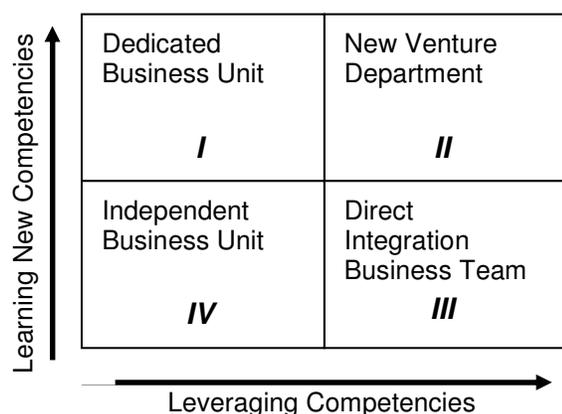


Figure 2.8: Choosing a venture structure

Source: Priya and Viswanathan (2005:4)

Figure 2.8 illustrates that a firm can structure its venturing programme along two axes, depending on how much competence needs to be leveraged and how much competence it needs to learn.

As shown in quadrant *I*, if a firm desires to learn new competencies, but does not need to leverage its existing competence extensively to do so; it should choose a dedicated business unit. If both new competence and the leveraging of existing competence are needed, quadrant *II* shows that a new venture department should be chosen. However, if there is no desire to acquire new competence, quadrant *III* shows that direct integration teams (task teams) is best. Finally, if venturing requires a high amount of competence to be leveraged, an independent business unit should be chosen (quadrant *IV*).

In deciding which organisational structure to choose, it is important to realise that a firm's strategy, objectives, and the way a firm perceives its environment will influence the effectiveness of the structure chosen (Gompers, 2002; Kola-Nyström, 2005), and that different structures vary in their ability to generate entrepreneurship (Johannisson, 1988). Therefore, one given design or approach might be well suited in one type of competitive condition but not suited in another (Lengnick-Hall, 1991).

Whatever the structure chosen, the corporate venturing literature emphasises that venturing efforts should be autonomous. Autonomy is a measure of the formal decision making rights that is delegated to those employees responsible for a task (Elfring & Foss, 1997). According to Briody, Cavusgil, and Miller (2004), autonomy has three dimensions: (1) the

perception that employees have of each other, (2) the day-to-day behaviour of employees, and (3) a firm's organisational structure.

Autonomy is critical during the ICV process, since venturing activities require substantially different structures and modes of operation in comparison with existing businesses (Drucker, 1985). Additionally, autonomy allows corporate entrepreneurs the freedom needed to react faster than normal project teams, which reduces the risk of missing an opportunity (Bouchard, 2001). However, too much autonomy can generate conflict between those responsible for the corporate venturing programme and senior management and increases the risk of strategic misalignment between a firm's strategic context and the venturing context (Bouchard, 2001). Kola-Nyström, (2005) agrees that too much autonomy may prevent the venture from obtaining the endowments it needs and may lessen their impact as a change, and renewal agent because too much autonomy and freedom can contribute to venture failure and hinder learning from venturing activities. To avoid these issues, Bouchard (2001) suggests allocating a high level of operational autonomy, while selectively limiting strategic autonomy. He recommends that by selectively limiting strategic autonomy, a mechanism is created whereby a firm can ensure the proper strategic alignment of CE initiatives and corporate strategy without compromising the individual venture's operational autonomy needed to react to opportunities.

Therefore, a formal organisational structure design is a necessary precondition for corporate venturing. The structure chosen should be a function of how much competence a firm is required to learn and exploit and should be autonomous yet still act within the guidelines set out by the corporate strategy. However, it is not sufficient to create the right culture, assign management responsibility, and decide on a structure, incentives should also be provided to encourage staff to participate in ICV.

2.6.1.6 Incentives

People are key assets in the generation of innovation and can make a significant difference when it comes to the success of corporate venturing (Markham *et al.*, 2005; Campbell & Park, 2004). Therefore, incentives for a firm's staff should be considered when preparing the foundations for ICV. These people or human resources must be retained and rewarded specifically for venturing if a firm wants to derive sustained benefits from it (Lengnick-Hall, 1991).

When designing an incentive system, it should be kept in mind that the main difference between incentives for the regular employees of a firm and those involved in venturing is

that the objective of the compensation system should be to promote building new business and not preserving the existing firm (Sykes & Block, 1989). In general, these rewards differ substantially from those used in the existing business (Kola-Nyström, 2005:79) and can cause a problem if care is not taken. Incentives should be competitive with those offered in similar positions, to attract human resources with the appropriate business development skills from the venture capital industry. The incentives in similar areas can be very high however, and when comparable compensation is offered to those involved in corporate venturing, it can lead to the perception of inequality by the regular employees of a firm (Block & Ornati, 1987). To prevent this perception Brazeal (1993) urges to offer both financial and non-financial rewards, on an individual and group basis, through a goal-setting process. This involves rewarding all those who contribute to the corporate venturing programme in an attempt to reduce the perception of inequity and to promote entrepreneurial activities throughout a firm.

Human resources are critical to the success of internal venturing. However, incentive design complicates the matter somewhat because the human resources involved in venturing have to be compensated in a manner that is competitive to similar industries. These types of incentives may be perceived as inequitable by employees of the firm that are not directly involved in venturing. Furthermore, the incentive system should be designed in such a manner that it promotes entrepreneurship and the building of new business, as well as to facilitate communication and knowledge transfer.

2.6.1.7 Internal communications and knowledge management systems

For an innovation programme to succeed an ample communications-system needs to be in place (Lengnick-Hall, 1991). An satisfactory communications programme should enhance the likelihood of attaining the highest strategic value by funnelling learning and ensuring that there is an effective information and knowledge flow (Dushnitsky & Lenox, 2005a; Sykes, 1990), which enhances the internal venturing programme's ability to identify opportunities (Pittaway, 2001) and builds the relationship between the venture and the firm (Sykes, 1990).

In the context of this study, for corporate venturing to contribute to corporate renewal it needs to follow a systematic approach to capture, create, store, mine, transfer, disseminate, apply and validate information and knowledge pertaining from its venturing efforts (Kola-Nyström, 2005:86). In other words, an adequate internal communication and knowledge management system enhances the venturing programme's ability to identify opportunities and allows the firm to learn from its venturing efforts. Enhanced information and knowledge

flow enables a firm to build and develop external and internal network capabilities and competence.

2.6.1.8 Building external and internal network capabilities and competence

Just as internal communication systems are important for corporate venturing, so too are business-networking capabilities. Network capability and competence, in other words, how well internal and external networks are managed and utilised, is likely to be important for internal venturing. From the entrepreneurship literature, Johannisson (1988) suggests the key to entrepreneurial success lies in the ability to develop and maintain a personal network. From the literature on venture capitalism, Florida and Kenny (1987) argue that venture capitalists centre themselves in multi-faceted networks that help them to develop ventures and reduce the risks inherent in venturing. Hence, building network competence is likely to be important for corporate venturing.

Networking facilitates the development of information and knowledge gathering, idea generation and idea testing mechanisms and helps to facilitate product innovation, entrepreneurship and the creation of new business (Maes, 2006). Therefore, intra-firm and inter-firm networking and collaboration are important elements for innovative success (Antoncic & Hisrich, 2003).

This is explained by Salmenkaita (2001), who found that both internal and external networks support and enhance research productivity by means of their implementation through corporate venturing agreements and close collaboration with both internal and external knowledge partners. His findings imply that from within the internal network, an individual (venture team member) learns and develops skills from interaction and networking with co-workers. This in turn helps to develop search routines and heuristics that contribute positively to research productivity. Furthermore as mentioned, in section 2.4, by collaborating with the firm's external network, the venture can gain access to endowments otherwise not necessarily available to it (Markham *et al.*, 2005; Dushnitsky & Lenox, 2005b).

Thus, in order for the venture to gain access to endowments effectively, some sort of network should be in place (Backholm, 1999). It appears that both the firm's internal and external networks have something to contribute to the firm's venturing efforts. Hence, it is important to analyse and understand the firm's capabilities, function, and position within both networks before embarking on venturing. It seems that developing its network competence and capabilities can help the venturing programme to gain access to and utilise the firm's pre-existing resources, however at some point the firm has to exit the venture.

2.6.1.9 Exit Strategy

At some point in the venture's life, it will have to leave the internal venturing programme. Here, this is referred to as 'exiting.' Exiting the venture can happen in various ways. If it is successful, the venture can be integrated back into the firm (a spin-in)⁹ or exited through for example a public offering, joint venture, management buyout or a sale to an external bid (a spin-off or spin-out)¹⁰ (Brazeal, 1993; Elfring & Foss, 1997; Fast, 1979b; Markham *et al.*, 2005). In other words, an internal venture can be exited by means of external venturing.

Elfring and Foss (1997) called this the consolidation phase, whereby the firm must decide whether the venture is still worthwhile, and if so, how to integrate it back into the firm, spin it off or spin it out. Exiting the venture can cause various problems (Brazeal, 1993; Fast, 1979b). For example, those responsible for the venture might become frustrated and leave the firm, disagreement on the timing of the exit might arise between the venture programme, and the involved business units, personal managerial involvement in the venture can cause a reluctance to let it leave the domain of the venture programme. Moreover, when an exit strategy is lacking, many ventures fail to realise their full potential after they have been integrated into the firm (Abetti, 1997).

Therefore, as part of the preparation for internal venturing, the firm needs to consider what possible exit scenarios are available and establish some sort of mechanism or policy for integrating or spinning-off its ventures (Brazeal, 1993; Fast, 1979b; Markham *et al.*, 2005).

2.6.1.10 Setting and managing expectations

A natural consequence of embarking on any project is that those involved have expectations. These expectations are important in internal venturing because when ideas are presented in an optimistic manner, this optimism is used by the firm to set deadlines,

⁹ "A spin-in is when an existing line of business decides to adopt the new activity or if corporate executives decide to make the new venture a permanent division." (Markham, *et al.*, 2005)

¹⁰ "Publicly traded divisions are referred to as spinouts, as opposed to the more conventional term spin-offs, because spin-offs are generally produced when the company wants to divest its less profitable segments or segments that do not fit with the company's core strategy (Keil, 2004)

schedules, and other monitoring measures, which may prove to be inappropriate (Backholm, 1999). Additionally, unrealistic expectations can also increase the spending rate and encourage the programme to move ahead on ventures faster than may be prudent (Fast, 1979a). If expectations are set too high the chances of dissatisfaction with the venture is increased (Fast, 1979a), which could lead to quick deterioration of management support, if these expectations are not delivered upon (Block & MacMillan, 1993).

Therefore, as part of preparing for the internal venturing programme, the expectations of senior management should be managed (Block & MacMillan, 1993). Ginsberg and Hay (1994) advise that expectations should be limited, as there will be less pressure to perform, which in turn avoids hasty mistakes. Block and MacMillan (1993) support this view and recommend that expectations should be managed by “under-promising and over-performing,”. However the risk of venture failure cannot be eliminated and also need to be managed.

2.6.1.11 Defining venture failure

Venturing is risky; the risk of failure is unavoidable and goes hand-in-hand with venturing and should thus be accepted and planned for. The fear of failure is a common pitfall in corporate venturing as it can cause an unwillingness to abandon a venture when failure becomes obvious (Knight, 1987; Winters & Murfin, 1988).

To address this fear, Markham *et al.* (2005) and Knight (1987) suggested that the firm should make sure everybody knows what constitutes venture failure by defining it clearly. This will help those involved with venturing know when to abandon a venture thereby avoiding unnecessary losses (Markham *et al.*, 2005; Knight, 1987).

2.6.1.12 Setting an operating charter

According to Fast (1979a), an operating charter provides guidelines with decision-making rules and a specific mission for the venturing programme. An operating charter can include elements such as the role of the venture programme, its objectives, governance issues, and how conflicts between the venture and the firm are solved (Leisure *et al.*, 2001). Furthermore, such charter could also include the level of autonomy, the responsibilities, and rewards of those managing the venturing programme as well as the relationship with other departments and the performance metrics that could be used (Leisure *et al.*, 2001). Thus, a charter is a document, which formally sets the first stage for ICV. According to Fast (1979a) the charter is not a plan set in stone, it should evolve over time. Also, rather than being a

substitute for managerial judgement and intuition, it should complement it (Fast, 1979b; Leisure *et al.*, 2001). According to Fast (1979a), the process of setting up an operating charter should involve executive management as well as the operating divisions of the firm.

The preparations for internal venturing are crucial as they set the stage for the rest of the venturing programme. Thus, guidelines set out and summarised in a formal operating charter provide a guide that can prepare a firm for venturing and help address issues and meet the necessary prerequisites before starting an internal venturing programme.

The operating charter therefore summarises the first phase of internal venturing by indicating how suitable ICV is as a development tool; who should be responsible for the venture and the venturing programme; and whether the culture is conducive for corporate venturing. The operating charter should also set out the venturing strategy with realistic objectives, what model of venturing will be used, incentive systems, venture failure, exit strategies, expectations and should emphasise the importance of networking competence and communication systems. After this initial preparation phase, a firm can move on to allocating endowments.

2.6.2 Phase 2: Allocation of endowments

As depicted in Figure 2.7 once the prerequisites are met, the firm can start to implement its ICV programme. However, implementing and funding an internal venturing programme is the outcome of multi-level political processes (Fast, 1979a), and the implementation is strongly dependent on the specific culture and politics of a firm (Winters & Murfin, 1988).

From the venturing literature, it seems that decisions regarding resource and endowment allocation (capital, managerial time, and personnel,) to the venturing programme are areas of great concern. According to Pittaway (2001), this is due to the uncertainty linked to the decisions involved. For instance, how to manage the trade-off between maintaining resource allocation focus on exploiting existing business opportunities, while simultaneously making resources available for the creation and utilisation of uncertain new business streams is a dilemma linked to the uncertainty of venturing. The dilemma of resource allocation is discussed in section 2.7.

Mechanisms, which control the allocation of endowments, and hence influence which of the firm's endowments the venturing programme and individual ventures have access to, are necessary due to these uncertainties and the fact that politics influences the allocation decision (Winters & Murfin, 1988; Salmenkaita, 2001). The importance of such a mechanism

is shown by Lengnick-Hall (1991), who notes that if no such mechanism is in place, the potential mistakes and errors that result often create associated problems with venturing. For example, when there is a perceived inequality in resource allocation to the venture, other departments within the firm may be reluctant to provide the venture with support (Fast, 1979a).

Unfortunately, within the literature reviewed, little is said about how to allocate of resources to the venturing programme. Nevertheless, when it comes to the allocation of resources to individual ventures within the venturing programme there seems to be an almost unanimous agreement that milestones are the best way of doing so (Sykes & Block, 1989; Block & MacMillan, 1993; Salmenkaita, 2001; Markham *et al.*, 2005). Milestones provide the venturing programme with an opportunity to test the assumptions on which the venture is based on a continuous basis (Block & MacMillan, 1993). For clarification, a milestone is a particular target that the new venture has to reach before further allocation of endowments takes place. These milestones can be set in terms of a number of targets, such as the preparation of a business plan, developing the first prototype or signing the first customer (Salmenkaita, 2001; Block & MacMillan, 1993).

In addition to using milestones, Fast (1979a) suggests the use of an endowment allocation board to make allocation decisions. According to him, such a board could help improve the relations with other divisions by addressing the problems of perceived inequality. Salmenkaita (2001) is of the opinion that the resource allocation board should also set the milestones, and recommends that the venture should have the ability to call for additional members to join the resource allocation board when special resources are required.

Pittaway (2001) however warns that the speed of resources allocation to the venture is crucial because sluggish allocation decisions can prevent the venture from exploiting opportunities in a rapidly changing marketplace. Therefore, he argues that the amount of bureaucracy associated with investing in and allocating resources to ventures can act as a barrier to success. In other words, a bureaucratic resource allocation process will hinder venturing. Furthermore, it is important to remember that when allocating endowments (financial resources in particular), it is not advisable to use normal funding, and budgeting procedures because of the high degree of uncertainty involved in venturing (Block & Ornati, 1987).

Several funding options are available for corporate ventures. Markham *et al.* (2005), recommend that funding options include: assigning venture costs to business-unit income statements; assigning venture costs to the corporate balance sheet; or treating corporate

venturing with long-term payback expectations. Depending on the objectives of the venture, each of these options has its own advantages and disadvantages. The goals advantages and disadvantages of each of these options are listed in Table 2.2.

Table 2.2: Goals, advantages and disadvantages of venture funding options

Option	Goal	Advantage	Disadvantage
Assigning costs to income statements	To grow the business through new products, new markets or channels of distribution	Uncomplicated way of assigning costs and accountability	Short term focus
Assigning venture cost to the corporate balance sheet	This is appropriate for longer-term objectives	P the venture against short term budget cuts	May lessen accountability because early-stage companies are usually not cash positive
Treating corporate venturing with long-term payback expectations	To achieve strategic objectives	Venturing programme's success measured by portfolio of ventures. Ongoing funding on fixed budget. Continuity of management commitment	No disadvantages are explicitly mentioned in literature

Source: Markham et al., (2005)

As presented in Table 2.2 assigning a venture's costs to the income statements is appropriate when the venture's goal is to grow the business through new products, new markets, or new channels of distribution. This is an uncomplicated way of assigning venture costs, but because of the impact it has on income statements, it can lead to short-term decision making and budget cuts in tough times (Markham *et al*, 2005). Assigning venture cost to the balance sheet is suitable when the venture has longer-term objectives. This can help to protect the venture against budget cuts however, it may also lessen the accountability of those involved in corporate venturing. Finally, treating corporate venturing with long-term payback expectations is likely to be the most suitable when the firm's objective is strategic. This method involves funding ventures from an ongoing fixed budget and looking at the total portfolio of ventures when measuring the programme's success.

In summary, the firm's culture and its political processes influence the allocation of endowments. The decisions involved are linked to great amount of uncertainty and hence the implementation of an allocation mechanism is required. The most effective structure appears to be milestones set by an allocation board. Care should however be taken that the allocation process does not become bureaucratic and slow.

From the venture's point of view, initial requests of low levels of funding (and endowments) from the allocation board are the most effective way the venture can obtain endowments. Finally, there are different ways of dealing with venture cost, the most advantageous for corporate renewal likely being the treatment of corporate venturing costs with long-term payback expectations because renewal is a strategic objective and venturing for renewal calls for a portfolio management approach. Once resources have been allocated, the venturing process can commence.

2.6.3 Phase3: The venturing process

As depicted in Figure 2.7, the venturing process is considered a phase in the overall ICV programme. This phase revolves around the venture and the steps that have to be taken to develop and implement a venture and is similar to the entrepreneurial process (Morris *et al*, 2008).

Although the responsibility for the venturing process (particularly, planning organising and implementing the venture) falls largely with the venture manager or management team, those responsible for the ICV programme should not be detached or disinterested (Block & MacMillan, 1993). In fact, they still play a vital role in setting up an idea generation mechanism, analysing the venture and the monitoring and controlling of the venture.

This section draws from the works of Tennenhouse (2004) and Block and MacMillan (1993), who discuss the venturing process as part of a firm's exploratory activities (refer to section 2.7). These authors describe the venturing process as consisting of a number of steps, which in essence involves the identification of inputs to the process through a scanning system (idea generation). The results of the scanning process are analysed and filtered to identify potentially relevant opportunities, and these ideas are subsequently championed, the venture plan is developed and the venture staffed. Once started the process also involves monitoring and adapting the venture and assessing venture performance. The various steps in the process are discussed subsequently, however it should be kept in mind that these steps do not necessarily occur in the sequence shown but is likely to occur at one point or another during the venturing process.

2.6.3.1 Idea generation

As a first step in the venturing process, opportunities must be transformed into realistic ideas if the firm wants to exploit them (Pittaway, 2001). These ideas are however unlikely to

appear “out of thin air” and therefore, some type of idea generation mechanism needs to initiate the venturing process.

Building on the work of Block and MacMillan (1993), Elfring and Foss (1997) argue that when designing an idea generation mechanism, care should be taken that the right kind and the right amount of ideas are generated. Therefore, the idea generation mechanism should make sure that enough ideas are generated and that these ideas are related to the objective of the corporate venturing programme.

Elfring and Foss (1997) make two important observations in regards to the generation of ideas. Firstly, they found that, the more willing the firm is to support ideas, the more willing individuals are to bring their ideas forward. Secondly, firms should isolate the idea generation process and allocate a large amount of freedom to employees to work on pet projects (a project that an employee might take on in addition to his normal day-to-day responsibilities), which can help to create an environment conducive to idea generations. Furthermore, Block and MacMillan (1993) as well as Knight (1987) argue that firms are more successful at innovation are willing to devote at least some time and resources to any idea, and do not place restrictions, such as accepting only ideas in the current line of business.

Very relevant to renewal is that an idea generation mechanism should increase the firm's environmental variation (the exposure a firm has to different environments), without compromising, the objectives of the venturing programme (Salmenkaita, 2001; Knight, 1987; Elfring & Foss, 1997). In other words, the firm's efforts to search for opportunities and ideas should expand its search into various different environments and learning domains but the ideas generated should be relevant to the firm and its strategic context.

2.6.3.2 Analysing and filtering ideas

As part of the venturing process, the ideas generated should be analysed and filtered to determine their suitability for further investment and their fit to the firm's corporate context. In essence, this step involves analysing and picking a number of ideas for further development (Kola-Nyström, 2005:54), in accordance to the objective of the internal venturing programme.

Block and MacMillan (1993) suggest that ideas should be filtered and analysed according to the idea's specific critical success factors, as well as the firm's ability to meet these success factors. Markham *et al.* (2005) recommend that selection criteria are major determinants of success. Various types of criteria can be used, such as strategic fit, potential size of the

venture, market positioning, investment limitations, financial performance requirements, risk levels, and feasibility. (Block & MacMillan, 1993).

Linking with the notion that ideas should be relevant to the venturing programme's objective, it should be kept in mind that for internal venturing to function as a strategic renewal tool, venture ideas should be analysed according to the renewal potential they hold for the firm. Kola-Nyström (2005) suggests that this can be done by analysing and assessing the novelty and complexity that a venture idea has in relation to the firm's markets, technology and business model.

Figure 2.9 indicates how new venture ideas can be assessed according to the venture's degree of novelty in its market, technology and business model and therefore, the potential that an idea holds for corporate renewal (as indicated by the shaded area).

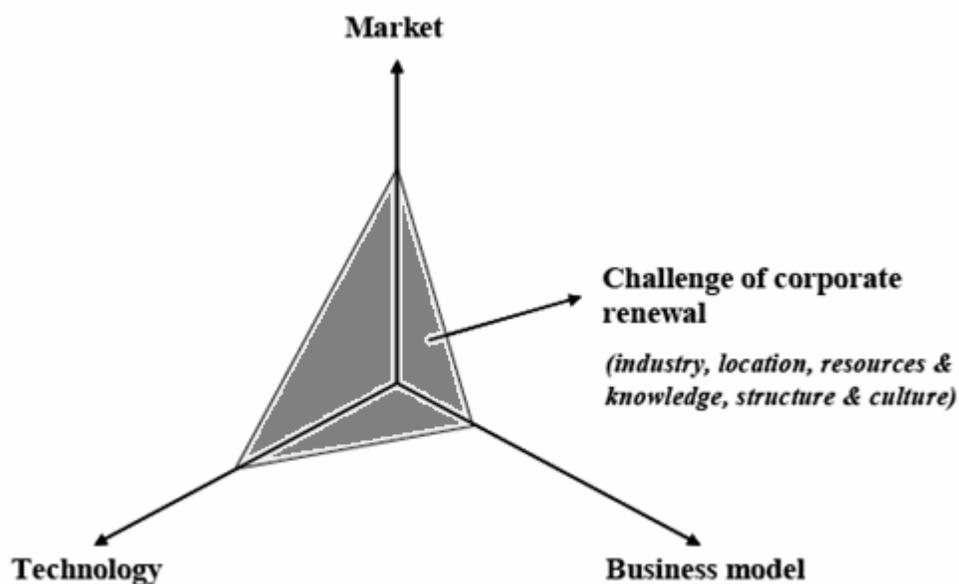


Figure 2.9: Novelty of market, technology, and business model

Source: Adapted from Kola-Nyström (2005:64).

The complexity of the venture ideas' market, technology and business model in relation to that of the firm is also an important component in determining a venture's potential for renewal. For example, Kola-Nyström (2005) interprets market complexity as reflecting a firm's understanding of underlying customer needs and the supply chain.

Figure 2.10 illustrates how the interactions between the novelty of a venture idea's market, technology, business model and the complexity can give an indication of the potential an idea has for corporate renewal.

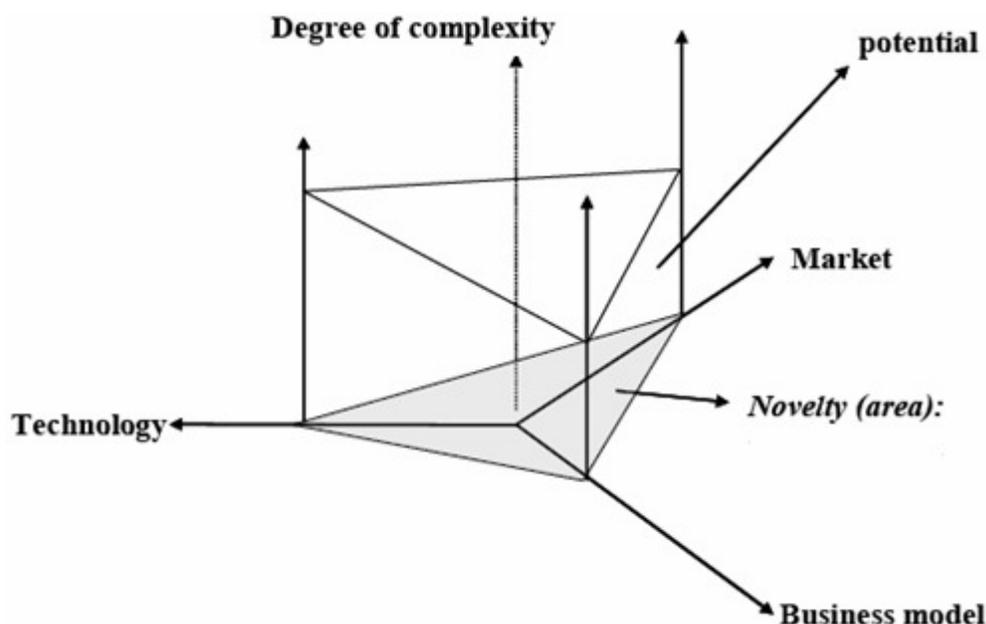


Figure 2.10: Novelty and complexity of market, technology, and business model

Source: Adapted from Kola-Nyström, (2005:65).

By linking the novelty and complexity of a venture idea's market, technology and business model, in relation to that of the firm, can help to identify the venture ideas with the greatest potential for the renewal of the firm.

In summary, analysing and filtering venture ideas in according to a set of selection criteria forms part of the venturing process. These criteria should guarantee that the idea is consistent with the firm's strategy and context and in relation to renewal. Analysing the novelty and complexity of a venture idea's market, technology and business model in relation to that of the firm, can help to ensure this goal is achieved.

2.6.3.3 Championing the venture idea: Planning and organising the venture

The next step in the venturing process is to champion the venture as well as planning and organising it. This in short entails gaining, and keeping support for the venture and writing a business plan for ideas that survived the screening process. Greene *et al.* (1999) define a venture champion as an individual or team of individuals responsible for a particular corporate venture in the early stages (planning, organising and starting the venture). This

championing role can be seen as “bottom up” championing and should form part of the responsibilities of the venture manager or management team (Backholm, 1999). From the perspective of the resource-based view, Greene *et al.* (1999) describe the corporate venture champion as a resource that has the capacity to acquire and leverage other resources by means of networking. This championing role can be seen as “bottom up” championing forming part of the responsibilities of the venture sponsor, the venture manager, or the venture management team.

Planning, organising and starting the venture: Sykes and Block (1989) suggest that a venture should not be managed according to a formal plan, due to the great amount of uncertainty that is typically involved in venturing. This corresponds to Sykes and Dunham (1995) who observe that at the outset, new venture plans are made up mostly of assumptions. In later work, Sykes and Dunham (1995) however contradict this by arguing that the early construction of a business plan allows for an estimation of the impact of primary and secondary assumptions on which the venture is built, therefore making a venture plan a necessity. Block and MacMillan (1993) also recommend that venture plans should be written, however they stress that these plans should not be set in stone, but rather that it should be dynamic and able to change as part of the venturing process. Similarly, McGrath (1995) adds that the business plan should be revised periodically, which makes it flexible and more adaptable to changing circumstances.

From this section, it can be inferred that the venture champion should gain support for the venture by planning and organising the venture idea. This plan should however be dynamic, flexible, and periodically revised, as the venture develops to make sure that the assumptions on which it is based on still holds true. Thinking back to the allocation of resources, this makes sense, considering that when a milestone is reached, the assumptions on which the venture is based are being tested. Thus, before additional resources are allocated, ventures plan should be re-assessed at every milestone and the additional resources should be allocated according to the revised plan.

As part of the venture plan, the venture’s structure should be decided upon, and a decision should be made, as to how much autonomy should be granted to the venture.

2.6.3.4 Venture’s position and autonomy

Looking at the location of the venture within the firm, Van Vuuren *et al.* (2006) suggests that a venture can be located along six major levels, each with their own advantages and disadvantages. Table 2.3 indicates that that the venture’s location (who the venture

management reports to) should be a function of how embedded it is within the firm. The more embedded a venture (hence the closer to option 1), the lesser the likelihood of attracting attention; however the venture could encounter constraints in terms of endowment and management support. Lesser-embedded ventures on the other hand show a high level of management support and endowment availability however, the high levels of support can also result in very costly venture failures. This is summarised in Table 2.3.

Table 2.3: Positioning the venture

Option	Description	Advantages	Disadvantages
Project assigned to line management	Line manager executes venture as all or part of his ongoing managerial responsibilities	Enjoys maximum exposure to operating experience	Location maximises venture's intrusion into and disruption of the unit's present business
Creating a separate section in an operating division	Venture is assigned full-time to a line manager who reports to an operating division	Political support	The venture has low priority in terms of commitment
Venture reports to research and development	Venture is assigned full-time to a line manager who reports to research and development	Close to evolving technology	Research and development may become infatuated with the technology and be oblivious to market needs
Venture report to a senior level	The person in charge of the venture reports to a senior position	Dedication to addressing key challenges of the venture operation	Little exposure to operation experience
Option 5: Having the venture report to a new venture division	The venture manager reports to a separate new-venture division	Ensures sympathetic nurturing of the venture and protection from corporate red tape	The venture is removed from the corporate mainstream
Venture reports directly to the CEO	The venture manager reports directly to the CEO	Guarantees maximum political protection,, and availability of resources	Support from the CEO can hamper objective evaluation of the venture

Source: Adapted from Van Vuuren et al. (2006)

As summarised in Table 2.3, the decision on where to locate the venture in the firm's structure is made somewhere along a continuum between embedding the venture within line management on the one extreme, and having it report directly to the CEO at the other extreme. Other authors (Block & MacMillan. 1993; McGrath, 1995) recommend that the amount of learning that will take place during venturing should determine how close the venture should be located (how much autonomy it should get). Similarly, the decision of staffing the venture is critical to its success.

2.6.3.5 Staffing the venture

As part of the venturing process, a venture team needs to be selected. Having the appropriate talent and skill to run the venture is an important determinant of success. Hence, the experience and background of the venture team plays an important role (Markham *et al.*, 2005; Sykes, 1986). The decision of where to source talent from and the incentive system used are also important aspects of staffing the venture (Sykes, 1986; Keil, 2001a; Sykes, 1992; Block & Ornati, 1987). This implies that by staffing the venture, the individual endowments that each of the venture team members has, is acquired during the venturing process.

Regarding the experience and background of the team, Sykes (1986) notes that it is important to take the team's familiarity with the venture's technology and markets into account, as this familiarity reduces the risk involved in venturing into new business. When sourcing talent, a firm needs to consider the benefits and drawbacks of recruiting externally or internally. On the one hand, hiring external candidates (from outside the firm) enables the firm to acquire knowledge, skills and familiarity needed as well as new perspective from outside its current business domain, (Sykes, 1986; Keil, 2001a). On the other hand however, internal hiring eases resource acquisition and helps to gain support from other units. Indeed, internal hires allow the venture to make use of the networks ties that they had formed within their original business units (Sykes, 1986; Keil, 2001a).

2.6.3.6 Adapting and monitoring the venture

Once the venture is started, adapting it to changing circumstances also forms part of the venturing process. Therefore, Block and MacMillan (1993) argue that a venture should be designed in such a fashion, that it could overcome the possible discrepancies and incongruence that develop between the venture and its environment, and between the venture and the firm, as the venture grows. They also add that venturing should be a continuous process of adaptation and redesign as the situation changes.

During the monitoring and adaptation process, the day-to-day operations should be left to the venture management, however, as mentioned, senior management still has a vital role to play. According to Block and MacMillan (1993), the role of the senior management involves providing input, support, and protection for the newly founded venture or in other words incubating it. This entails modifying the venture design if necessary, analysing the skills, resources, and knowledge needed by the venture, and matching it with what the firm can provide.

To help in the monitoring and adaptation process, Sykes and Dunham (1995) suggest using a milestone-based process called “Critical Assumption Planning.” This process expands on the ideas of Block and MacMillan (1993), who recommends that a method should be put in place to make sure that learning occurs from the venturing process. Sykes and Dunham (1995) present their method as a learning loop framework that identifies and tests the critical assumption on which the venture is built, and then re-assess the venture accordingly. The ‘Critical Assumption Planning Process’ can be summarised in the following six steps:

- Knowledge Base Assessment: Assess and define the business concept and competition.
- Critical Assumption Identification: Identify the assumptions, which, if wrong, lead to a change in direction or the termination of the venture. It also involves the quantification of these assumptions and adding them to the business model.
- Test Programme Design: Save costs by testing only the most critical assumptions, thus maximising organisational learning for money spent.
- Funding Request: Request additional funds if needed.
- Test implementation: After the testing programme has been designed and funding obtained, the critical assumptions can be tested.
- Venture Reassessment (forms the basis for step one again): If the assumptions cannot be replaced by facts the venture cannot be validated and should be redirected or contingency plans set in place. This can be seen as the go, no-go decision stage. For example if a venture which assumed that no competition existed in their particular market, becomes aware that there is indeed some competition (after implementing the test), it will need to decide if it can still continue as planned or should it redirect its efforts.

This can be seen as a form of milestone planning whereby the selection of the next milestone should be based on the results of the test that was performed to see if the most critical assumptions are still valid (Sykes & Dunham, 1995).

2.6.3.7 Performance measures

Measuring the performance of the venture is an integral part of the venturing process in monitoring and adapting the venture (Block & MacMillan, 1993). Brennikmeyer, Brockelman, Macauley, Pipet, and Verry (2000) cautioned that, without reliable performance indicators, it is hard to make informed decisions. However, measuring the performance of a corporate

venture is not a simple task (McDougall, Robinson, & DeNisi, 1992; Tsai, MacMillan, & Low, 1991).

Traditional performance and accounting measures such as return on investment, return on equity and cash flow are problematic, due reasons such as: the variability of new venture returns; the unavailability of past data to base predictions on (Miller *et al.*, 1988; McDougall *et al.*, 1992); and the sensitivity of the performance measures to accounting practices (Sorrentino & Williams, 1995). In addition, Sorrentino and Williams (1995) argue that traditional measures do not fully explain whether the firm receives benefits from its ventures, hence ignoring the strategic value that the venture has for the firm.

As an alternative to these traditional performance measures, market share has been proposed (Miller *et al.*, 1988; Miller, Spann, & Lerner, 1991; Sorrentino & Williams, 1995; Williams, Tsai, & Day, 1991; Tsai *et al.*, 1991). Indeed, it has been found that in general, market share has a positive correlation with both return on investment and cash flow. It also measures the acceptance of a firm's product within the market (Tsai *et al.*, 1991), and takes in account a venture's ability to compete in a turbulent environment (Sorrentino & Williams, 1995), thereby capturing some of the venture's strategic value. However, using market share is not without its problems.

One particular issue with using market share is that when a venture creates a market or enters a very new market. In this case, if successful, the venture will prove that the market is lucrative, which will attract more competition and hence the venture might lose market share (Miller *et al.*, 1988). Also, Sorrentino and Williams (1995) note that performance in the area of market share gain does not automatically translate into long-term profitability for a venture. In fact, they state that there is still no clear evidence that market share is significantly linked to long-term venture growth.

Another alternative proposed by Markham *et al.* (2005), is to use a portfolio of strategic process performance metrics such as personnel development, the use of project management tools and the quality of communication with key stakeholders, as they all are an integral part of the venture planning process. In addition, Miller *et al.* (1988) suggest that new ventures should be evaluated on the progress towards a desired end, and not the end. In other words, a venture should be measured on how well it is progressing towards to the goals laid out in the business plan, and not on the business plan itself or how closely it is followed. Backholm (1999) suggests that because an internal corporate venture operates in both the market environment and the firm's internal environment, the venture should be

assessed in both contexts. This corresponds to the view of McGrath *et al.* (1994), who state that assessing venture performance should be done in three areas:

1. the external marketplace, where market worth is demonstrated as a function of the attractiveness of a firm's products or services to its customers,
2. the internal market place, where firm worth is measured by the attractiveness of the venture in comparison to other alternatives within the firm,
3. in addition, the competitive arena, measured in terms of how isolated the market and venture will be from competition.

Focusing more on organisational learning, McGrath *et al.* (1994) suggest that in the early stages, ventures should be assessed based on the specific and idiosyncratic insights into future possibilities that a venture gains because of the understanding that develops of the relationship among the antecedents (factor inputs) and consequences (results expected from deploying the factor inputs) (McGrath *et al.*, 1994). This implies that the future is a set of assumptions that must be proven rather than a plan that must be met. Similarly, because venture plans are flexible in order to adapt to the frequent changes in the needs of new ventures, venture management should not be evaluated on how closely they adhere to plan (Knight, 1987).

To summarise, the literature seems to indicate that the performance of a venture and its management team should be evaluated both in financial and strategic terms, using a portfolio of measures that is adapted to the venture's unique context and the set goals and measure its progress towards these goals. Furthermore, due to evolutionary nature of ventures, milestones are the best way of evaluating venture performance.

The third phase in the overall Internal Corporate Venturing (ICV) process therefore is concerned with the development, planning, and implementation of ventures as well as the monitoring and adjustment thereof. The various steps in the process summarised in Table 2.4.

Table 2.4. The venturing process

Idea generation	Idea generation should be encouraged through an idea generation mechanism. This can be done by supporting the ideas generated without placing restrictions on the type of idea generated but still ensuring that it is still relevant to the venturing programme's objective. Initially allocating a small amount of endowments to test the feasibility of ideas
Analysing and filtering ideas	Ideas should be filtered according to a set of selection criteria. Care should be taken to communicate the criteria chosen to those who generate ideas, in order to make sure that the right types of ideas are generated. These criteria should ensure that the idea is consistent with the firm's strategy and context.
Championing the venture idea:	This involves the bottom up process of gaining and keeping support for the venture from the venturing programme. The responsibility of the venture champion lies with the venture manager or management team and includes the planning, organising and starting of the venture.
Staffing the venture	The skill, competence and experience of the venture team, where to source talent from and incentives are issues of particular importance. A different set of skills is needed to run a venture and therefore care should be taken into account
Adapting the venture	The venture should be designed in such a fashion that it can overcome the possible discrepancies and incongruence that develop between the venture and the firm as the venture grows.
Monitoring and adapting	Due to the importance of learning and endowment creation for corporate renewal, Critical Assumption Planning, a tool based on milestone planning which ensures that learning occurs, appears to be the most sensible way of managing and adapting the venture for corporate renewal.
Venture performance	The performance of a venture and its management team should be evaluated both in financial and strategic terms, using a portfolio of measures that is adapted to the venture's unique context and the set goals and measure its progress towards these goals. Furthermore, due to evolutionary nature of ventures, milestones are the best way of evaluating venture performance.

Source: Based on descriptions by Tennenhouse (2004) and Block and MacMillan (1993)

The development, planning, implementation, monitoring and adjustment of ventures do not happen in isolation, to survive, ICV and the individual needs to be championed throughout. This executive championing process, is discussed next

2.6.4 Phase 4: Championing internal corporate venturing

Looking at phase four as depicted in Figure 2.7, the executive championing is a function performed at the senior management level, also referred to as top-down venturing (Day, 1994) and essentially involves managing and coping with the resistance of the firm, regarding the acquisition and exploration of endowments through venturing (Backholm, 1999). The championing from senior management differs from the bottom-up championing discussed in section 2.6.3.3. For ease of reference the executive venture champion shall be

referred to as the “godparent” of both the venturing programme and individual ventures (Kola-Nyström, 2005:84)

The “godparent” influences the venturing programme by acting as an advocate for venture management, blocking unwarranted corporate resistance and ensuring that the firm provides long-term support to both the venturing programme and to individual ventures, but he or she does not interfere with the day-to-day venture activities (Kola-Nyström, 2005:84; Greene, Brush, & Hart, 1999). The “godparent” therefore protects the venture when corporate routines are disrupted and ensures that coherence is kept between the corporate, innovation and venturing context (Greene, Brush, & Hart, 1999).

Furthermore, the “godparent” is essential in the leveraging of the firm’s endowments that occur during internal venturing because the “godparent” makes use of his or her network to promote venturing to those with the power to allocate endowments, which makes the “godparent” a resource that strongly affects the acquisition of endowments by the venture and the venturing champion (Greene, Brush, & Hart, 1999).

This phase of the venturing programme is therefore an omnipresent one meaning that championing by the “godparent” occurs throughout the entire internal venturing programme. Because the role of the “godparent” involves securing the acquisition and exploitation of endowments for the internal venturing programme and protecting and promoting the internal venturing programme, venture championing is an essential element of ICV. Once the venturing programme enjoys the protection of the “godparent”, a firm can focus on assessing the performance of ICV.

2.6.5 Phase 5: The performance of the corporate venturing programme

The fifth phase of the corporate venturing programme, as depicted in Figure 2.7 revolves around the performance of corporate venturing. Apart from the performance of the individual corporate venture, the overall performance of the corporate venturing programme, consisting off the portfolio of ventures and their management, should also be assessed (Ginsberg & Hay, 1994). Markham *et al.* (2005) argues that the ICV as a programme involves the adjustment of its strategy and structure, based on periodical evaluation to ensure that the programme is still valid from the firm's point of view – that is to position and align ventures to the corporate context (Kola-Nyström, 2005:82-83).

Birkinshaw and Hill (2003) advise measuring the success of the venturing programme by using a 'portfolio liquidity ratio.' The portfolio liquidity ratio is the proportion of the programme's investments having experienced a liquidity event (e.g. spin-in, spin-off) compared to the investments having failed. Similarly considering only the liquidity ratio does however neglect the strategic value that venturing has for the firm.

Therefore, Birkinshaw and Hill (2003) suggest that the strategic value of the corporate venturing programme should be measured based on its perceived strategic value to the firm. These measures should include such elements as the perceived effect of the programme on the firm's reputation, the importance of business development within the firm, and the demand for the firm's products or services. More specifically, they recommend measuring the perceived strategic value delivered by the portfolio of ventures such as:

- creating increased demand for the firm's offering;
- enhancing the overall firm reputation; and
- enhancing the importance of new business development to the firm.

McGrath *et al.* (1994) recommend that corporate venturing programmes should be assessed on their ability to find and exploit new endowments, measured in terms of the emerging ability of the programme to set and reliably attain its objectives. The emerging ability is used as a measure because in its infancy, a corporate venturing program still has to learn how to set and attain its objectives. Because competence development is an important element in renewal, this measure can act as an indication of the renewal capacity of the venturing programme. The next phase looks at the adjustment and evolution of ICV.

2.6.6 Phase 6: Adjustment and evolution

The next phase in the programme, as shown in Figure 2.7, involves the evolution and adjustment of the venture. Adjustment is needed because with time, incongruence or a misfit can develop between the venture, the venturing programme, and the firm, thus implying that the corporate, innovation and venturing context could become misaligned. This misalignment, according to Fast (1979b), is due to the changes in the corporate situation and competitive environment. Furthermore, Kola-Nyström (2005:83) notes that even though each venture within the programme can begin with clear objectives, they must be modified and adapted to fit reality.

Therefore, the programme needs to update its context and strategic direction from time to time to keep it aligned with the firm's innovation context and business development strategy as well as the corporate context and corporate strategy. Fast (1979b) concludes that the pressure that builds to rectify this misfit is one of the main driving forces in the evolution of a firm's venturing efforts.

In an extensive case study on the Merin-Gerin foundry business, Badguerahanian and Abetti (1995) observed that as long as there was congruence between the objectives and strategies of the firm and that of the foundry, the internal venture prospered. Thus, they concluded that the success of the foundry business ultimately rested on how congruent the venture was on corporate strategy, policy and the commitment of top management.

Therefore, the venturing programme's context and strategy needs to be adjusted from time to time so that it remains aligned with the innovation and corporate context. Finally, a firm should also reflect on and learn from the venturing experience.

2.6.7 Phase 7: Learning from experience

The final phase of the corporate venturing programme, involves learning from experience. Learning ensures that a firm creates capabilities and increase understanding of internal venturing. The learning experience makes sure a firm improves the performance of future venturing tasks. The importance of learning from venturing is well documented yet it is rarely understood and implemented in firms (Miles & Covin, 2002; Tidd & Taurnis, 1999)

This final phase concludes the corporate venturing programme, but does not end it. In fact, the process of corporate venturing is never draw to a close as what is learnt serves as input into the corporate venturing programme, thus forming the base of the first phase. At this

point, it should be emphasised that these phases overlap and does not necessarily occur in the sequence discussed. Indeed, learning from experience is also an omnipresent process as it takes place during the entire venturing programme.

Block and MacMillan (1993) agree and emphasise the redirection of the venturing based on what is learnt from both successful and unsuccessful outcomes. The concept of “Critical Assumption Planning” (CAP) by Sykes and Dunham (1995) also expands on this idea. Indeed, in this phase, major uncertainties in the business proposition are isolated as critical assumptions and tested as the progress is made through sequential milestones. After testing the critical assumptions, plans are revised to reflect what has been learnt, leading to redirection or adjustment (Phase 6) (Sykes & Dunham, 1995).

Block and MacMillan (1993) further argue that the firm should study both successes and failures to learn from the experience. In this regard, Tukiainen (2004:19) mentions that successful ventures often follow ventures that were deemed failures because of what they have learned from these failed ventures. Backholm (1999) agrees that the knowledge gained by failure is often instrumental in achieving subsequent venture success. Similarly, McGrath (1995) views the corporate venture as a learning and competence building experiment. He argues that these venture experiments inevitably involve some errors, mistakes, and failures from which the venture then learns. Thus, the strategic utilisation of disappointment, or stated differently, learning from mistakes, is necessary and can provide valuable insights into organisational policies and objectives.

Kola-Nyström (2005:166 - 167) summarised this phase by stating: “the corporate venturing process is about learning, accumulating knowledge about new markets, technologies, and business models. However, the process of learning needs to be complemented by the process of leveraging, that is applying knowledge and enabling the development of new competitive advantages.” With this background in mind, the renewal dilemma, and how it relates to the managerial conflict between exploiting endowments and searching for new ones are discussed.

2.7 The renewal dilemma and the fundamental managerial conflict

In Chapter 1, it was mentioned that established firms are often subjected to the renewal dilemma. Indeed, a great deal of the interest shown by practitioners and academics in corporate venturing is based on the need for large firms to renew themselves and to create

more opportunities instead of exploiting their current competencies and, corporate venturing has the potential to fulfil this need (Backholm, 1999).

At the heart of the renewal dilemma lies the fundamental managerial conflict mentioned in section 2.6.2. This fundamental managerial conflict refers to using scarce resources to exploit current endowments versus using these resources for “experimentation” and for the “exploration” of new endowments. This section shows why this conflict between exploring new business and focusing on the existing business is often the underlying reason why many firms struggle to instigate innovative and renewal activities.

According to Keil (2001b:6) “exploitation refers to the refinement of existing knowledge and competencies.” Exploration and experimentation on the other hand “refers to experimentation with fundamentally new alternatives” (Kola-Nyström, 2005:85). In other words, exploration is seen as activities that create new knowledge and competence by experimenting with and learning about new opportunities.

The conflict between these two paradigms occur because initially, because managers know and are comfortable with the current business of the firm (Morris *et al.*, 2008) and therefore the returns of exploitation is often positive in the short run (Keil, 2001b). The firm's internal structure and bureaucratic system have also been designed to accommodate that firm's current business needs, which create the perception that it is more risky to explore new business (Benady, 2005). Therefore, managers are more inclined to exploit current competence. Exploiting existing competence is important in the medium to long run. By exploiting key competencies a firm's current competitive position is enhanced which maximises its chances of success in its current market (Tukiainen, 2004; Priya & Viswanathan, 2005). However, in the end, exploitation alone is risky since a firm can be trapped in its existing knowledge and competence while dynamic changes in a firm's external environment can make these competencies archaic (Keil, 2001b).

For this reason, a firm needs to explore and experiment with new business (Keil, 2001b; Leibold *et al.*, 2002). By engaging in exploration and experimentation activities, a firm searches for, and acquires new knowledge and competence and through experimentation with new business models and resource combinations develops new knowledge and competence. However, although exploration is needed, only focusing on exploration, a firm compromises what it can learn from its exploitation activities because it does not get time to process the new knowledge and competence (Keil, 2001b).

Exploration and exploitation should therefore be seen as complementary processes where a balance, between creating and utilising new competence and exploiting the firm's existing competence, needs to be obtained (Morris *et al.*, 2008; Priya & Viswanathan, 2005; Keil, 2001b; Kola-Nyström, 2005). Therefore, for renewal to take place, both exploration and exploitation needs to take place in the context of existing businesses (Kola-Nyström, 2005:86).

In other words, to overcome the renewal dilemma, firms need to seek possibilities to apply existing endowments and maximise the opportunities to search for new endowments. That is, to find opportunities and leverage learning in the light of changes in the firms internal and external environment (Kola-Nyström, 2005:88). This means that new endowments (knowledge in particular) needs to be transferred from experimentation and exploration activities to the firm and existing endowments from the firm needs to be transferred to the experimentation and exploration activities (venturing). The next section discusses the relationship between internal venturing and corporate renewal.

2.8 The relationship between corporate venturing and corporate renewal

As defined previously, corporate renewal is the strategic process that results in the lasting and fundamental changes to align the firm with its external environment. This means that the firm has to align its corporate context with the external environment through strategic processes.

According to Kola-Nyström (2005), these strategic processes set the scene for the firm's innovation strategy and innovation context. Furthermore, as have been shown in the Chapter 1, corporate renewal necessitates innovation. Internal venturing forms part of the innovation context of the firm, implying that ICV can be one of these strategic processes.

However, sustained corporate renewal will only take place if there are sufficient bi-directional linking processes between the strategic processes and the corporate context. These linking processes include learning about and exploration of changing markets, technologies and business models (Burgelman, 1983; Kola-Nyström, 2005), the monitoring or the firm's market's technology, business model and culture and the sharing, creation and transfer of endowments that takes place because of this (Raub, 2001; Block & MacMillan, 1993; Kola-Nyström, 2005).

Therefore, because the firm's existing endowment base serves as input into the internal venturing process, balancing the allocation of endowments between exploiting existing competence and business areas and searching for and creating new ones, (search operations) is a central theme in corporate venturing.

2.9 Summary

This chapter, started with a brief introduction, which outlined the structure and briefly stated the goal of the literature review. Thereafter, various definitions of corporate venturing was presented, the advantages of corporate venturing and the reasons why a firm would engage in corporate venturing was discussed. The ICV programme was analysed in detail, and a discussion of the renewal dilemma and fundamental managerial conflict as well as the relationship between of corporate venturing to renewal was presented.

This literature review showed that ICV is suitable as a development tool and appropriate for firms who face an uncertain market, and that the process of internal venturing (the venturing programme) should fall under the responsibility of senior management, who need to make sure that certain prerequisites are met before internal venturing is initiated. In deciding which venturing model to use, the literature shows that a firm needs consider the amount of learning that needs to take place from venturing efforts. Venturing also requires an effective internal communication system and the venture should pay attention to its networking capabilities. The adjustment process should be anticipated, and there should be a clear understanding of what constitutes venture failure.

The allocation of endowments to the venturing programme and individual ventures were examined and it was found that, the firm's culture and its political processes influence the allocation of endowments. The most effective structure of allocating endowments appears to be by means of milestones set by an allocation board. Furthermore, there are different ways of dealing with venture cost, the most advantageous for corporate renewal likely being the treatment of corporate venturing costs with long-term payback expectations because renewal is a strategic objective and venturing for renewal calls for a portfolio management approach.

As part of the overall corporate venturing programme, this chapter also took a in depth look at the "individual" venturing process and found that an idea generation mechanism should be put in place and ideas should be filtered according to a set of selection criteria to make sure that the idea is worth the effort. These criteria should furthermore make sure that the

idea is consistent with the firm's strategy and context and analyse the novelty and complexity of a venture idea's market, technology, and business model in relation to that of the firm. As part of the individual venturing process, the venture manager should gain support for the venture idea and plan and organise the venture idea. A choice should furthermore be made regarding the venture's position within the firm. The skill, competence and experience of the venture team, where to source talent from and incentives are further issues of importance.

The literature review furthermore outlined that the entire venturing process needs to be championed by a "godparent." It was found that this "godparent" is crucial to the internal venturing programme due to the vital role it plays on obtaining endowments from the firm and the firm's network. Furthermore, the venturing programme's context and strategy needs to be adjusted from time to time, so that it remains aligned with the innovation and corporate context. It was also emphasised that the corporate venturing programme is about learning, the accumulating knowledge and other endowments, and the leveraging of old and new endowments.

This chapter forms the basis for the Chapter 3, where the ICV programme is conceptualised as a means for the firm to instigate corporate renewal by using organisational learning as a linking mechanism between the venturing context and corporate context of the existing business.

Chapter 3: Conceptualisation

3.1 Introduction

Building on the literature reviewed in the previous chapter, this chapter aims to conceptualise a theoretical framework for the usage of the Internal Corporate Venturing (ICV) as a tool for corporate renewal. The aim of this theoretical framework is to illustrate how:

- the endowments from the firm's endowment base is utilised during Internal Corporate Venturing (ICV) to acquire and create new endowments through its interaction with the environment thereby balancing exploration and exploitation;
- how these new endowments can be transferred and leveraged by the firm by means of organisational learning thereby creating the linking processes between the environment and the firm's corporate context needed to instigate organisational renewal.

As a first step, renewal is discussed in more detail and thereafter a basic framework is conceptualised. Once the foundations are laid, the theoretical framework is elaborated upon to include the environmental context and the dynamics of venturing as well as issues relating to the effectiveness of the theoretical framework are discussed.

3.2 Renewal of the firm

Corporate renewal is a process that involves changes in the firm's competitive approach and the transformation of the firm's corporate context (Kola-Nyström, 2005:12). This transformation can only be created from inside the firm (Maes, 2006). Furthermore, when a firm engages in corporate renewal efforts, it essentially creates and/or acquires new endowments to enlarge the strategic options available to the firm, which allows the firm to pursue new markets, products, or customers and to redefine its competitive arenas (Zahra *et al.*, 1999). However, creating new endowments is only the first step in the renewal of a firm. For these endowments to contribute to the firm's renewal efforts effectively, the firm needs to apply and assimilate it so that they can be translated into new competitive advantages (McGrath *et al.*, 1994). That is, the firm needs to make sure that there are linking processes in place between the source of the new endowments and the firm's corporate context (Kola-Nyström, 2005).

Looking more specifically, at how endowments contribute to competitive advantage in the first place, the resource based, and knowledge based view forms a useful basis to aid understanding. The initial resource based theory of Penrose (1959) conceptualised the firm as a bundle of resources that can be applied for productive means (Weber & Weber, 2006). Later expanded by Wernefelt (1984) and Rumelt (1984), the theory in essence conceptualises a firm's competitive position as the unique combination of resources and their inter-relationships (Raub, 2001; Weber & Weber, 2006). Stemming from the resource-based view is the knowledge-based view of the firm where knowledge is emphasised as, strategically, the most noteworthy resource of the firm.

The noteworthiness of knowledge is due to its unique characteristics and complexities that make it hard to imitate, which in turn, can lead to idiosyncratic competencies (Kola-Nyström, 2005:26; Weber & Weber, 2006). The knowledge-based view conceptualises the firm as a repository of knowledge and competencies and argues that the firm develops competitive advantage from its superior ability to create and transfer knowledge (Weber & Weber, 2006). In other words, the firm is seen as a "dynamic" entity, which has the capability to create new knowledge based on existing firm specific capabilities and continuous interaction with its environment" (Kola-Nyström, 2005:25). What is missing from the above theory is exactly how these idiosyncratic competences are formed, a question addressed by organisational learning.

To understand the link between new knowledge and capabilities creation, it is useful to look at what is probably the most widely accepted model of how organisational learning works: the spiral model of organisational learning developed by Nonaka (1994). According to this model, knowledge creation, transfer, integration and retention (or knowledge socialisation), and the sharing or externalisation of knowledge is an integral part of organisational learning. Hence, organisational learning can be seen as the way firms manage these processes around their environment and organisational context (Zahra *et al.*, 1999).

Building on this, Keil (2004) shows that the firm's organisational structure, initial resource endowments, knowledge articulation and codification, knowledge exchange, and the social networks through which knowledge is transferred and shared, play vital roles in affecting both the direction and the effectiveness of the learning processes. This consequently results in the development of new competencies and the adaptation of existing ones. More specifically, Keil (2004) argues that the ability to adapt capabilities and build new ones can be considered as a capability in itself (also called dynamic capability). This dynamic capability consists of distinct processes such as resource and knowledge acquisition,

knowledge codification, the analysis and transfer of knowledge and resources as well as resource integration, which provides a basis for understanding how competitive advantage is achieved. This dynamic capability view emphasises the adaptation, integration, and re-configuration endowments to adapt to the changes in the environment (Kola-Nyström, 2005:26). Dynamic capabilities can therefore be defined as a firm's ability to integrate, build, and reconfigure competencies to address changing and dynamic environments (Bouchard, 2001:2).

Consequently, in addition to its ability to create competitive advantage, organisational learning also enables the firm to undergo actions such as re-examining its mission, competencies and structures, which in turn enables it to shed the old and ineffective routines and systems (Zahra *et al.*, 1999), and therefore adapt to a changing environment.

Taking into account that new endowments result from the firm's interactions with, and learning from, the environment, it is assumed that environmental change and turbulence have a constant impact on the firm. Breaking down the environment into different knowledge sets based on product-market combinations, these knowledge sets can be seen as different domains in which certain rules and cognitive frameworks govern the decisions to put resources to productive use (Salmenkaita, 2001).

These domains can be seen as the learning domains in which a firm searches for and acquires new knowledge. Furthermore, in reviewing the literature on the paths and processes that lead to the development of capabilities, Keil (2004) found that firms engage in "search" operations, whereby they actively look for new resources and knowledge from these learning domains. This however also means that the learning path leading to the evolution and development of new competencies could be restrained by the firm's initial endowments, structure culture, and systems that lie within its current domain. This phenomenon is known as path dependency, which in short, can put the firm in danger of becoming trapped in its existing capabilities.

To overcome path dependency, both Keil (2004) and Zahra, Dharwadkar, & George (2000) suggest that the firm should engage in experimental learning¹¹ or learning by doing that

¹¹ the firm learns from repeated activity that is adapted to past experience

expand the variety of their learning domains. Therefore, path dependency is overcome by experimental learning in a diversity of learning domains, which allows the firm to respond adequately to the environment and to adapt acquired knowledge to its specific context (Keil, 2004).

Although a larger amount of learning domains increases the firm's internal diversity and prevents path dependency, it causes fragmentation of endowments and leaves it subjected to multiple interpretations (Zahra *et al.*, 1999). For the firm to gain an advantage in terms of strategic renewal, it therefore needs to identify the endowments of value and assimilate it with the existing ones (Zahra *et al.*, 1999; Cohen & Levintal, 1990). This ability is referred to as relative absorptive capacity (Cohen & Levintal, 1990; Weber & Weber, 2006), and will be discussed in more detail in section 3.4.2.

Taking all of the above into consideration it is proposed that the firm's existing endowments as well as its initial business model, technologies, culture and systems, influence the firm's search routines and how new knowledge is acquired as well as the various learning processes, such as knowledge transfer and assimilation. The new knowledge that results from search routines allows the firm to enlarge its strategic options, which can lead to a redefinition of its competitive areas and hence the development of new competencies. These competencies, if applied to productive means, can lead to new competitive advantages, firm structures or even a new mission for the firm. In addition this can also lead to the shedding of what is old and ineffective and hence to the firm's renewal. This process is represented in Figure 3.1.

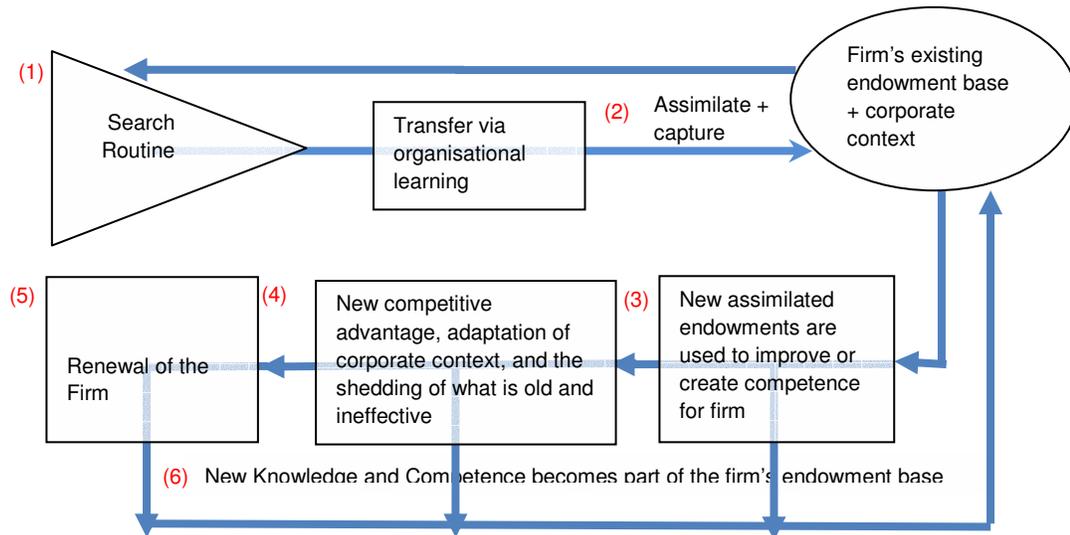


Figure 3.1: Renewal of the firm

As illustrated in Figure 3.1 endowments from the firm's endowment base are used in the firm's search routines (1). The search routines result in new endowments and is transferred or assimilated into to the firm's endowment base through organisational learning (2). However, this does not necessarily lead to renewal because only when these endowments are leveraged and used (again through organisational learning) (3) it can help the firm to adapt its corporate context by means of the understanding that develops between antecedents and outcomes in the environment (4) and hence enhances the overall ability of the firm to renew itself (5). Organisational learning is an integral part of the process, and takes place when endowments are used and leveraged, the corporate context is adjusted and when renewal takes place (6).

3.3 The basic framework: Renewal and corporate venturing

The relationship between strategic renewal and corporate venturing primarily lies in the fact that corporate venturing is a sub-field of corporate entrepreneurship (Kunkel, 2000). CE lays the groundwork for renewal by creating an innovative and entrepreneurial environment within the firm (Mason, 2002:5), which facilitate development processes and search routines such as idea generation which ultimately contribute to the creation of the new endowments and linking processes needed to renew a firm (Miles, Paul, & Wilhite, 2003).

Additionally, due to the unique access ICV has to the firm's endowments (Greene, Brush, & Hart, 1999), it is in a good position to utilise the firm's current endowments base (Backholm, 1999). Therefore, internal venturing can be used to leverage, and exploit a firm's current endowment base (Hoskisson & Busenitz, 2002) while simultaneously expand a firms

learning domains and extending and creating new endowments (Elfring & Foss, 1997). In other words, ICV has the ability to achieving a co-existence between the exploitation and exploration paradigms.

Elfring and Foss (1997) made the general observation that ICV is of particular importance to strategic renewal because of the variety of learning domains that experimentation with boundary spanning¹² internal ventures creates from within the firm. Additionally, because a venturing programme invests in a portfolio of ventures, the internal venturing programme enables the firms to enter a large amount of learning domains simultaneously (Zahra *et al.*, 1999).

According to Dushnitsky and Lenox (2005) ICV is also in a particularly good position to tap into learning domains as it can easily conform to the specific rules and cognitive frameworks of the new domain, for the reason that the specific rules and cognitive frameworks of a new venture still need to be formed. Furthermore, internal ventures is particularly well suited to instigate renewal because the search routines that take place during the venturing process involves the fulfilment of peripheral knowledge (endowment) management tasks such as capturing, analysing and evaluating relevant new endowments and ideas and communicating these and the changes they entail to the rest of the firm (Dushnitsky & Lenox , 2005).

In addition, McGrath *et al.* (1994) state that: “one of the main objectives of investing in corporate venturing is to identify new combinations of productive resources in the firm and to extend the frontiers of corporate capabilities”. This implies that corporate venturing is a way of improving the firm’s ability to explore potential new sources of competitive advantage through the opportunities that internal venturing provides for the creation and combination of endowments making it a good starting point for the organisational endowment creation needed to the renew the firm (Kola-Nyström, 2005:86; Sorrentino & Williams, 1995).

It is therefore proposed that, ICV can act as a solution to the renewal dilemma using its ability to create an innovative and entrepreneurial culture that facilitates idea generation, as

¹² Boundary spanning is the tapping knowledge (and other endowments) beyond the firm’s organisational boundary (Elfring and Foss, 1997).

well as its boundary spanning activities that involve scouting, analysing, filtering, and acquiring endowments from the internal and external environment. This environmental scanning mechanism undergone during the internal venturing process expands the firm's learning domain, which leads to the creation, expansion and assimilation of new resources, knowledge, competence and capabilities, enabling the firm to go through the changes needed to and renew itself.

The following subsections describe the transfer of endowments through organisational learning and the acquisition of endowments needed to create the linking processes between internal venturing and the corporate renewal.

3.3.1 Endowment transfer through organisational learning

McGrath *et al.* (1994) made the interesting observation that corporate venturing allows the firm to learn about and gain insight into future opportunities by means of the understanding of the relationship among the antecedents to and outcomes of corporate venturing that is gained. McGrath *et al.* (1994) argue that the experimental or explorative learning that occurs because of the increase in learning domains and search variation that internal venturing creates, allows the firm to create specific and idiosyncratic insights into future possibilities. In this light, the idiosyncratic insights, endowment combinations and routines that venturing creates can translate into new endowments and competitive advantage for both the venture and the parent firm (McGrath *et al.*, 1994). Backholm (1999) agrees that corporate ventures could help to sustain and create competitive advantage through these insights as it provides the firm with the ability to make better resource investments and allocations focused on specific idiosyncratic competencies.

Furthermore, as discussed in section 2.6.7, to improve the corporate venturing programme the firm must learn from its previous venturing experiences and their mistakes (Block & MacMillan, 1993; McGrath, 1995), which can then be used as inputs for the venturing process forming a feedback loop of continuous learning.

The proposition is therefore, that the organisational learning and understanding of the relational aspects between endowments and the environment that result from ICV allows the firm to gain idiosyncratic insights into future possibilities and create new endowment combinations which in turn leads to the creation of new endowments. Furthermore, the firm also learns from the venturing programme, which can in turn be used as inputs into the venturing process, forming a feedback loop of continuous learning.

3.3.2 Endowments from other market participants

Although the specifics of how endowments are shared and created between the firm, its network and the market environment fall beyond the scope of this study, it is necessary to highlight a few important aspects to aid the understanding of the role these elements play in the internal venturing process.

In general, firms build their competitive advantage relying not only on their own endowments but also on those of other market participants and network partners. In fact, in today's market place this represents a paradigm whereby firms build their competitive advantage by concentrating on their core competence or their core activities and relying on the capabilities of other market participants and its network for other (non-core) activities (Maria & Martí, 2004).

As Wagner and Buko (2005) proclaim, organisational knowledge also comes from the endowment sharing that result from the social interactions that the firm engages in when dealing with other market participants (for example customers, competitors, government and suppliers). This argument is based on the linkages that market-oriented firms develop with other market participants to disseminate and use market information and knowledge, which serves as input for innovation processes such as venturing.

Therefore, by following a strategy of collaboration with external market participants, the firm can gain access to much of the unfamiliar skills and capabilities that might be needed when venturing into new learning domains which in turn helps to manage the relationships and tasks involved in acquiring, sharing, and building endowments from other market participants (Wagner & Buko, 2005).

It is therefore proposed that the firm can also engage in organisational learning by utilising endowments from external market participants. In the next section the basic framework of how ICV functions as a renewal tool is represented.

3.3.3 Basic framework representation

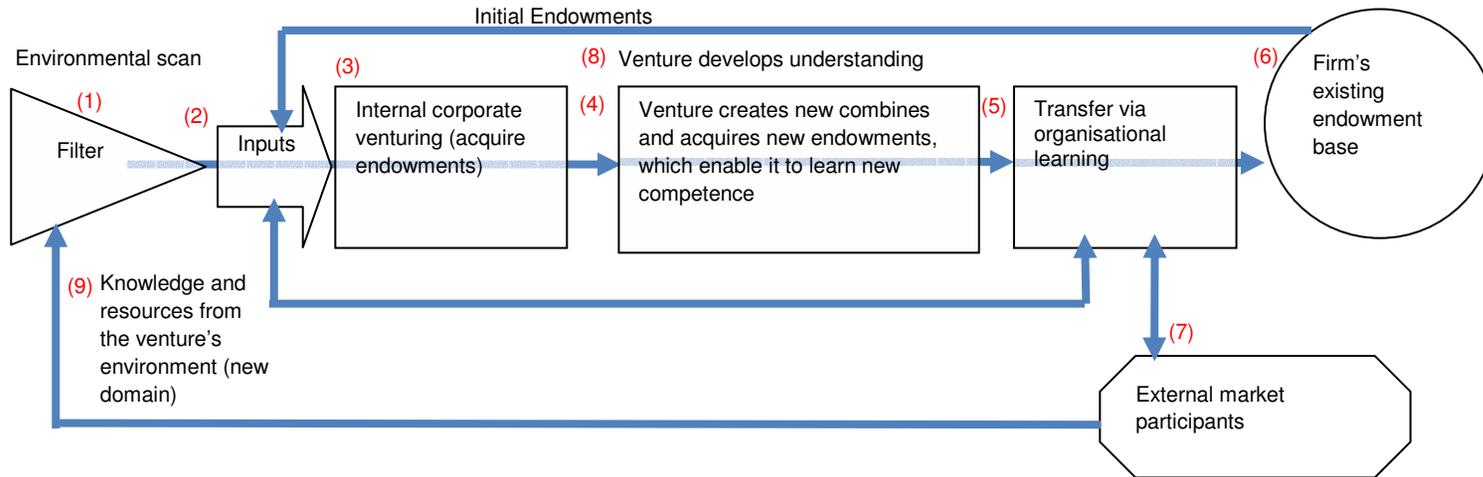


Figure 3.2: The basic framework

As illustrated in Figure 3.2 internal ventures have access to the endowment base of the firm (6), they are ideally positioned for taking inputs (2) from the firm's pre-existing endowment base (6), filtering (1) them and combining them with endowments from the environment and other market participants (7). In addition, internal venturing creates understanding between the relationship among the antecedents to and outcomes of corporate venturing by interacting with the external environment and other market participants (8) while simultaneously broadening the firms learning domains (9) by means of the creation and capture of new endowments, and its subsequent transfer to the firm. These new endowments as well as new endowment combinations are transferred and diffused throughout the firm and assimilated with existing endowments through organisational learning and the leveraging of endowments (4 and 5). Therefore, internal venturing provides the firm with the means to become a learning organisation that changes and adapt to the environment.

Putting the organisational renewal process and internal venturing process together, a framework of how ICV contributes to the renewal of a firm emerges. This is represented in Figure 3.3.

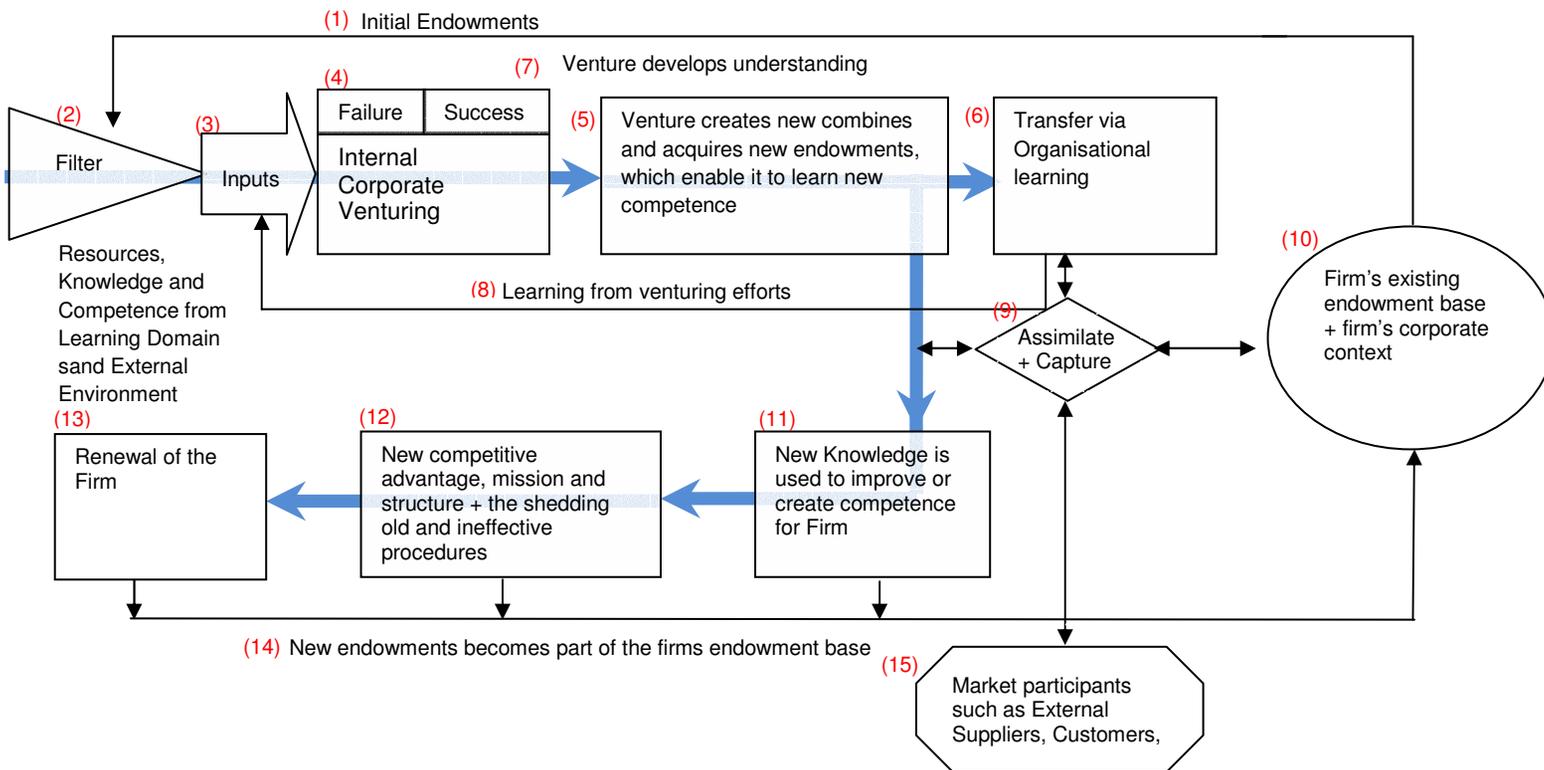


Figure 3.3: The basic framework: Internal corporate venturing as a renewal tool

As shown in Figure 3.3 once ICV is initiated, an environmental scan and analysis is done from which ideas are generated (2). These ideas, along with inputs from the firms pre-existing endowments (1), market participants (15), the learning domain, and the external environment, all are filtered (2) and serve as input (3) into the internal venturing process (4). During the venturing process, the idea is implemented and develops as a successful venture or a failure. However, in both cases, existing endowments are used and combined in new ways and even more are acquired (5). This enables the venture to learn (6) and create new endowments through the understanding that develops about the relationship among the antecedents and outcomes of corporate venturing (7).

A feedback loop is formed due to the learning that occurs about venturing (8) which, as shown in Figure 3.3, again serves as input (3) to venturing. These endowments then are transferred to the firm through organisational learning (6) and are captured and assimilated (9) into the existing endowment stock of the firm (10). At the same time, these newly assimilated endowments are accepted and used by the firm (11). This enables it to create new competitive advantage or structures and can even help to reformulate the firm's mission. In addition the ICV process allows shedding of procedures which are old and ineffective (12), thereby enhancing the firm's ability to renew itself (13) because the new endowments become part of the firm's endowment base (14).

Hence, the internal venturing process is conceptualised as one of the parent firm's explorative search operations that create and acquire the new endowments and the competitive advantage the firm needs to renew itself. In the subsequent sections, the basic framework is expanded upon.

3.4 Framework effectiveness

How effective the ICV process can be used as a renewal tool depends strongly on the firm's knowledge management systems, relative absorptive capacity, and how related ventures within the venturing programme are to the parent firm.

3.4.1 Knowledge management systems

When learning takes place, certain knowledge management systems, such as electronic libraries, internal communication systems, and databases, can help to accelerate learning processes. These tools and systems support endowment transfer, search operations, and collaboration activities (Perez-Araos, Barber, Munive-Hernandez, & Eldridge, 2007). This implies that that these tools facilitate the collection and integration of endowments into the

firm's endowment base helping the firm to reflect on the consequences of their behaviours and actions, facilitate insight and understanding (Yang, 2007) and therefore renewal.

In fact generating corporate renewal through corporate venturing demands a systematic approach to knowledge management" (Kola-Nyström, 2005:86) Hence, within the theoretical framework, it is proposed that knowledge management systems facilitate learning and the process of integrating and capturing endowments and knowledge and competence transfer.

3.4.2 Effectiveness of knowledge and competence transfer

Zahra *et al.* (1999) argue that the transfer and integration of new knowledge (and other endowments) is supported by the firm's communication systems and the network capabilities developed by the venturing programme and its entrepreneurs (venture management team) through their social and networking knowledge. A firm's relative absorptive capacity shapes this network competence as it refers to the ability to recognise the value of new information, assimilate it, and use it. Therefore, it is proposed that the higher a firm's relative absorptive capacity, the easier a firm will transfer and disseminate endowments; however, the effectiveness of the framework is not affected only by knowledge and competence transfer but also by how related ventures are to the firm's corporate context.

3.4.3 Relatedness

The issue of relatedness is a controversial one (Sorrentino & Williams, 1995). Firms learn more effectively from related ventures because related venture results in the creation of endowments that are closer to the firms endowment base (Schildt *et al.*, 2005). These "more-related" endowments are assimilated with more eases because they are closer to a firm's current endowment base (Schildt *et al.*, 2005; Dushnitsky & Lenox, 2005a). That is, there is a higher absorptive capacity when ventures are related to the firm. New endowments developed by strategically unrelated ventures on the other hand, expand the variety of the firm's learning domains much more (Dushnitsky & Lenox, 2005a). In other words, the more unrelated a venture is to its parent firm the more new endowments can be developed because of the broader search domain. However, the closer the venture to its parent the easier it is for the parent firm to learn from the venture. Thus, a balance should be found between the deepening of the firm's current endowment base that takes place when pursuing related ventures and the creation of a variety of learning domains using the

pursuit of unrelated ventures. The process model of ICV can be elaborated by taking the environmental context and dynamics of internal venturing into account.

3.5 Elaborating the theoretical framework

In the section to follow, where and how the environmental context of internal venturing, environmental dynamism, and the dynamics of corporate venturing fits into the theoretical framework will be discussed. Subsequently the complete framework of how internal venturing can serve as a renewal tool is graphically presented.

3.5.1 The environmental context of internal corporate venturing

To understand the framework, its development, and its applications better, the specific environment in which ICV operates must be taken into account (Sykes, 1992). The environment in which an internal venture operates can be sub-divided into an external environment, and an internal environment (Backholm, 1999).

Within the firm's internal environment, the corporate venturing process interacts and links with various other business development processes and outcomes within the firm's innovation context (Backholm, 1999) The ICV process is also influenced by firm specific elements such as the firm's corporate strategy, financial position, and the entrepreneurial orientation of top management (Fast, 1979). The internal environment of large firms has often been blamed for their apparent inability to launch new ventures. In general, the problem here is that most large corporate environments are not conducive in creating, recognising, or commercialising innovative new ideas (Fast, 1979). This dilemma makes the construction a supportive internal environment for innovation difficult and can create barriers to the creation and development of creative ideas and venturing.

The external environment influences the ICV programme by the industries into which it is venturing and their characteristics (Antoncic & Hisrich, 2004). The external environment is also the primary operating environment where the venture develops endowments (Backholm, 1999) and where it interacts with other market participants.

Environmental dynamism refers to the instability and continuous change in the firm's internal and external environment (Antoncic & Hisrich, 2003). Backholm (1999) argues that to cope with the environmental uncertainty and dynamism, the firm should become more organic in nature. This means that the firm should ensure that the internal variety and flexibility in the firm corresponds to the external turbulence. It is therefore proposed that ICV can help the

firm create internal variety and flexibility by ensuring it reacts to and proactively to change the environment (Backholm, 1999; Block & MacMillan, 1993; Winters & Murfin, 1988). Hence, internal venturing can serve as a way to match external dynamics with the internal variety and dynamics venturing creates.

3.5.2 The dynamics of corporate venturing

Beside the environmental dynamism that exists, venturing in its nature is a dynamic process and hence so is the process of ICV (Thornhill & Amit , 2000). By explicitly describing how the various elements involved in internal venturing interact with each other, how this affects endowment development, as well as the understanding of the relationship among the antecedents and outcomes of corporate venturing, organisational learning, endowment integration and renewal, a better understanding of the theoretical framework is obtained. Some of the most important elements, and how they are associated to one another, are set out in the Table 3.1

Table 3.1: The dynamics of corporate venturing

	Endowment creation	Endowment allocation	Relational understanding	Learning domains	Organisational Learning	Renewal	Venturing strategy	Management	Venture "godparent"	Culture & Environment	Idea generation	Selection criteria	Evolution	Planning the venture	Incentives	Staffing the venture	Managing disappointment	Structure	Venture autonomy	Political Issues	Performance Measures	Networks
Endowment creation						X	X		X	X					X	X	X			X	X	X
Endowment allocation							X	X	X	X				X		X	X			X	X	X
Relational understanding						X															X	X
Learning domains						X	X			X	X				X							
Organisational Learning						X	X				X						X		X	X	X	X
Renewal	X		X	X	X		X	X	X	X	X	X	X								X	X
Venturing strategy	X	X		X	X	X		X	X			X	X	X	X			X	X	X		
Management		X				X	X		X	X		X	X	X	X		X	X		X		
Venturing "godparent"	X	X				X	X	X		X		X	X	X	X			X	X	X		X
Culture & environment	X	X		X		X		X	X		X		X	X	X				X			
Idea generation				X	X	X				X				X								
Selection criteria						X	X	X	X						X							
Evolution						X	X	X	X	X				X	X			X	X	X		
Planning the venture		X					X	X	X	X	X											
Incentives	X				X		X	X	X	X		X	X					X				
Staffing the venture	X	X																				
Managing disappointment	X	X			X			X							X							
Structure							X	X	X				X						X			
Venture autonomy					X		X		X	X			X					X				
Political Issues	X	X			X		X	X	X				X									
Performance Measures	X	X	X		X	X																
Networks	X	X	X		X	X			X													

Key: X = Association  = Same variable

Table 3.1 indicates that endowment creation influences, and is influenced by renewal: the venturing strategy, the venturing champion, the firm and venture's culture and environment, incentives, the staffing of the venture, management of disappointment, political issues, performance measures, and the firm/venture's network. These elements are discussed subsequently:

3.5.2.1 Endowment allocation and acquisition

How endowments are allocated by the firm and acquired by the venturing programme and its ventures, affects the relation the ICV programme has with the firm's various divisions (Fast, 1979), and hence the divisions' willingness to share their endowments. Venture management is also responsible for analysing the endowments needed, matching these with those that the parent firm can provide (Block & MacMillan, 1993) and communicating these needs to those responsible for resource allocation. Endowment allocation and acquisition is also influenced by the venturing strategy goals and objectives.

3.5.2.2 Venturing strategy, goals and objectives

The goals, objectives and venturing strategy, or in other words the reasons for instigating internal venturing (Block & MacMillan, 1993) and how the firm plans to create, capture and deliver value (Markham *et al.*, 2005), directly affect the firm's renewal efforts because it will influence how much it will learn from venturing. For example, when a firm engages in ICV to exploit or gain a window to new technologies/markets, to diversify its activities or to experiment with different business models, it directly expands the number and variety of its learning domains and, as discussed in section 3.4, this contributes to the firm's renewal capability.

More directly, McGrath *et al.* (1994) note that firms may engage in internal venturing specifically to develop new and distinct competences or for the renewal of the firm. The tone set by the venturing strategy is set may also influence renewal. For example, a radical venturing strategy tends to increase the variety of learning domains while an exploitative or evolutionary strategy tends to expand existing learning domains.

The choice of strategy also affects resource and knowledge acquisition, since it could be more difficult to obtain resources when following a radical venturing strategy because it tends to be risky and often not financially justifiable (Abetti, 1999). Furthermore other elements such as the objectives, risk tolerance, values, size, environmental complexity,

needs, vision and capabilities of the firm, all influence the firm's choice of strategy (Lengnick-Hall, 1991; Winters & Murfin, 1988; Sykes, 1986) and hence renewal. Management also influence these elements.

3.5.2.3 Management

The management of the venturing programme also has a great influence on ICV and how it relates to renewal, since most of the decision-making authority and responsibilities regarding elements that effect endowment allocation are vested in them. Examples of these elements include managing and creating an entrepreneurial culture and environment, goal-setting, and achievement, the choice of venture selection criteria, developing and directing the venture plans, incentives, and managing disappointment (Fast, 1979; Winters & Murfin, 1988; Block & MacMillan, 1993). The "godparent" is instrumental in the success of the ICV programme.

3.5.2.4 Venture "godparent"

As part of ICV programme, a venture "godparent" is also an important element in a firm's renewal efforts. The "godparent's" most prominent influence relates to endowment acquisition and utilisation, helping to put incentives in place, helping to resolve political conflicts, setting the venture strategy, facilitating the venture's growth, the transition into the parent firm, and helping to create the right environment (Greene *et al.*, 1999; Knight, 1987; Abetti, 1999). All of these elements have an impact on the firm's ability to acquire, create, transfer, and exploit endowments (Backholm, 1999).

3.5.2.5 Entrepreneurial culture

Senior management, with the help of the "godparent", need to make sure that an entrepreneurial culture is created as part of the preconditions to internal venturing (Ginsberg & Hay, 1994). Despite being a major determinant of venture success (Winters & Murfin, 1988), corporate culture in itself could have a major influence on the firm's renewal capability. A more entrepreneurial culture facilitates idea generation (Elfring & Foss, 1997), which in turn, expands learning domains and variety, and how the firm interacts with external market participants. An entrepreneurial culture, facilitates idea generation.

3.5.2.6 Idea generation

Idea generation influences renewal because it expands not only learning domains and variety, but also because a firm's existing endowments generally serve as a starting point for

idea generation (Block & MacMillan, 1993), which subsequently serves as input for the internal venturing process. In addition, the link between idea generation and expanding learning domains and variety depends on the exposure of idea generators to different environments (Salmenkaita, 2001; Elfring & Foss, 1997). Ideas need to be screened using venture selection criteria.

3.5.2.7 Venturing selection criteria

The criteria set (influenced by management and the venturing champion) for selecting ventures can directly influence strategic renewal as it will determine which ventures the firm will support and ultimately learn from (Block & MacMillan, 1993). The opportunities and threats in the external environment not only influences the criteria used to select a venture, but also the development end evolution of the ICV programme.

3.5.2.8 Evolution of a venturing programme

The venturing programme and the venture's relationship with its parent evolves over time (Thornhill, 2002; Thornhill & Amit , 2000), due to environmental dynamism and the changes that occur in the external environment (Abetti, 1995). These changes influence a firm's strategy, its financial pressure, and executives acting as sponsors or champions (Abetti, 1995). Naturally, this evolution impacts on many of the elements that in turn impact on renewal such as the venture's business plan, venturing strategy, objectives, human resources, incentives, among others.

3.5.2.9 Planning the venture

Planning the venture involves defining the venture's business model, setting the venture's objectives, and estimating their impact on the firm (Sykes & Dunham, 1995). Hence, it influences the endowments that the venture will require, and the incentives provided for employees.

3.5.2.10 Incentives

The incentives that employees receive for their contributions made to the venture and the venturing effort can contribute to endowment creation. According to Block and Ornati (1987), firms with special incentives in place may have moderate difficulty with setting venture objectives because of the perceived inequality of incentive systems used in ICV. Furthermore, incentives can help in the development and nurturing of an entrepreneurial culture (Block & Ornati, 1987; Sykes, 1992), and prevent the loss of internal entrepreneurs

(Brazeal, 2003). Should internal entrepreneurs leave, they take their valuable knowledge and competence with them. How the venturing team is compensated can also influence how supportive the firm's other business units might be of the venture because of their perception of inequality (Sykes, 1992; Fast, 1979) and hence how much endowment sharing and transfer occurs.

3.5.2.11 Staffing the venture

The decisions made surrounding the staffing of the venture directly influences the endowment obtained by the venture and hence renewal. Staffing the venture essentially entails the acquisition of human resources and the knowledge and competence that comes with them, making the background of the venturing team of particular importance (Markham *et al.*, 2005; Sykes, 1986). For example the team's familiarity with the venture's technology area and markets (Sykes, 1986), as well as where the team is sourced from has an impact on the knowledge and competence created by the venture. When recruiting from outside, the venture recruits external endowments, whereas when recruiting from inside the firm, existing endowments are sourced from within the firm. Nevertheless, the venture process is uncertain and despite successes experienced, firms need to accept that some ventures will fail. In case of failure, the disappointment resulting from this failure should be managed.

3.5.2.12 Managing disappointment

A firm should learn from both successes and failures if it wants to gain the maximum renewal benefits (Block & MacMillan, 1993; McGrath, 1995). Therefore, managing disappointment (managing what is learnt from venture failure), can provide valuable insights into the firm's current policies and objectives which in turn increase the value internal venturing holds for renewal. McGrath (1995) recommends that measures should be put in place that reward the value of failure so that managers are encouraged to learn from disappointment and mistakes made.

3.5.2.13 The organisational structure of the venturing programme

The structure of the internal venturing programme also affects the renewal capability of the firm. Priya and Viswanathan (2005), for example identified how close the venture is to a firm as a key factor influencing how they structure the programme. Other factors identified from the literature include how much autonomy the venturing programme is given, which in turn influences the closeness of the relationship between the venture and the firm and hence

their ability to instigate a knowledge flow between them (Fast, 1979a). How autonomy influences the ICV programme is subsequently discussed.

3.5.2.14 Venture autonomy

How independent the venture operates and how close the venture should be located to the firm should be a function of how much the firm wants to learn from the venture (Block & MacMillan, 1993; McGrath, 1995). For example, when a venture is placed inside an operating unit, the operating unit can provide support more easily than when the venture operates independently (Sykes & Block, 1989), which eases competence sharing and transfer as well as learning. How autonomous the venture will operate can also influence the entrepreneurial culture (Sykes, 1986). An autonomous venture has more freedom to explore different ideas and learning domains and therefore to act more innovatively. Keil (2004) also indicates that the level of autonomy provided by the initial organisational structure influences organisational learning and capability building. Internal political issues also influence venture autonomy.

3.5.2.15 Internal political issues

Internal political conflicts and other internal political processes can reduce the firm's ability to learn and gain competitive advantage (Zahra, 1996). Furthermore, political conflict aggravates the tendency of firm's business units to withdraw support for the venture (Block & MacMillan, 1993). In other words, political conflicts cause an unwillingness to share competence and resources by other departments in the firm (Fast, 1979).

3.5.2.16 Performance measures

Measuring the performance of both the venture and the venturing programme influences renewal. For example, the venture can be encouraged to focus more or less on the aspects of renewal by using dynamic performance measures. Dynamic performance measures takes into account the value a venture and the venturing programme has for organisational development, learning, the understanding about the relational aspects between the endowments and the environment, and its ability to find, create, and exploit endowments (Markham *et al.*, 2005; McGrath *et al.*, 1994; Miller *et al.*, 1988). Hence, for the parent firm's benefit, the venture and venturing programme should be measured and consequently rewarded in terms of its emerging ability to instigate renewal (McGrath *et al.*, 1994). The firms, network also influences a number of areas in ICV.

3.5.2.17 Networks

The internal and external networking involved in internal venturing affects renewal since access to the competence is gained by having access to some type of internal network (Backholm, 1999) which is usually established and maintained by the “godparent” (Greene *et al.*, 1999). Within the internal network, an individual learns and develops competence from interaction within the network (Salmenkaita, 2001). However, as previously discussed, a firm’s external network is a valuable source of knowledge and how much the firm actually learns from its network is a function of the firm’s relative absorptive capacity and the embeddedness of the structure of internal communication and collaboration (Salmenkaita, 2001).

Although the aspects presented in Table 3.1 were discussed separately, they are interrelated and influence one another. Taking the dynamics and the elements that affect the effectiveness of ICV into account the next section presents the comprehensive theoretical framework.

3.6 The comprehensive theoretical framework

The complete framework is represented graphically in Figure 3.4. This theoretical framework allows for flexibility and adaptability because in practice each firm will adapt these activities to their unique context and gain experience through organisational learning as they engage in internal venturing for organisational renewal (Keil, 2004).

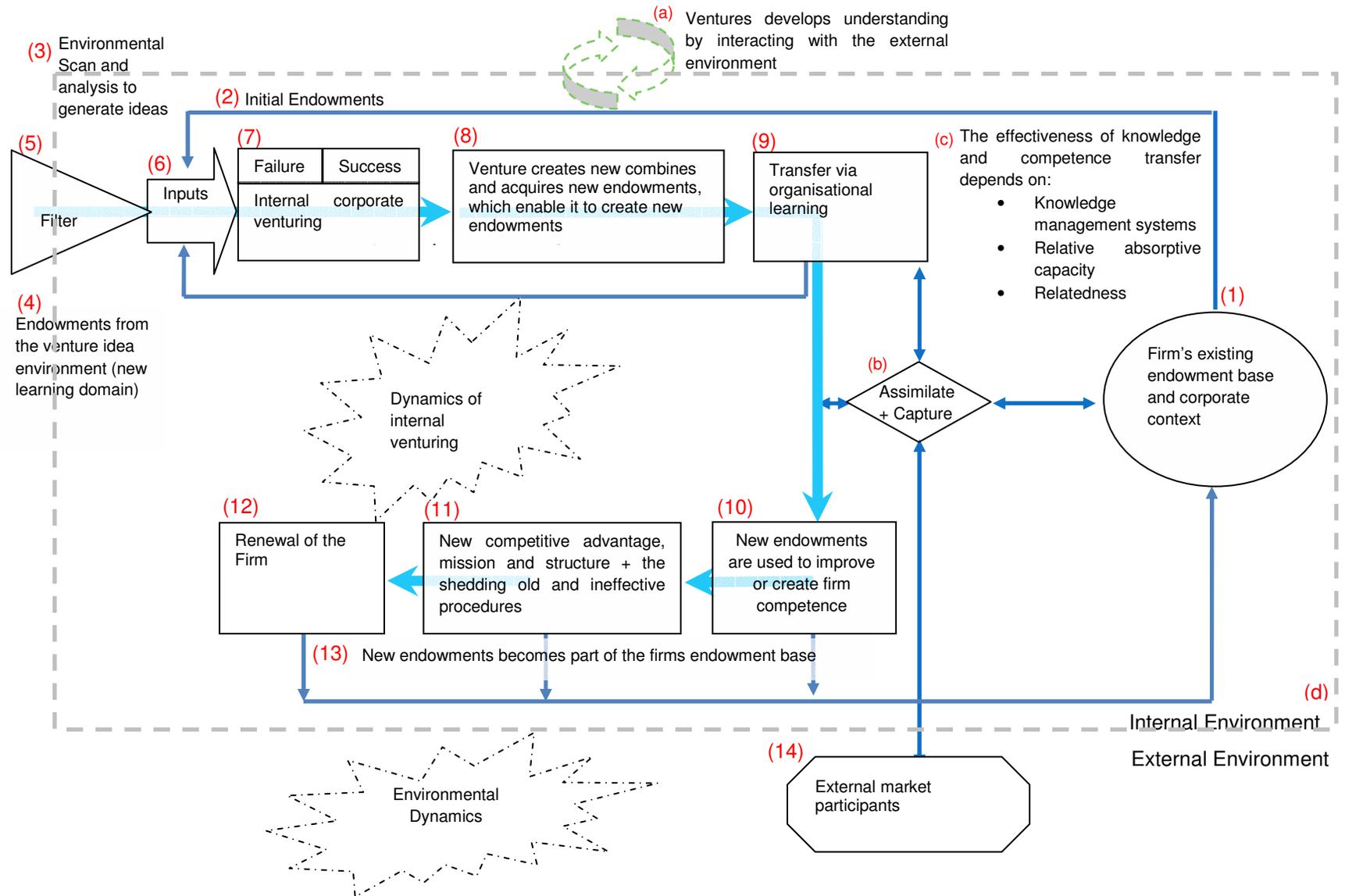


Figure 3.4: The complete framework

From Figure 3.4 it is proposed that the firm intending to use internal venturing as a renewal tool, first needs to commit some of the initial endowments (2) from its corporate context (1) to exploitative and explorative search operations. An environmental scan and analysis is done to generate ideas (3). The ideas along with endowments from their learning domain (4), and other market participants (14) are filtered (5), allowing the venturing process to capture endowments selectively from various learning domains (4), thus serving as input (6) into the ICV process (7).

It is further proposed that during the internal venturing process the endowments from the venturing firm along with the newly acquired endowments are deployed for productive means through internal ventures (7). During the process, the venture and its team interact with the internal and external environment and develop understanding of the relationship among the antecedents and outcomes of corporate venturing (a).

The understanding that develops in the venture's unique environment leads to organisational learning (9) and the creation of new idiosyncratic endowments in the form of new knowledge and competence (8). These endowments can in turn be captured and assimilated (b) (using organisational learning) and is used by the firm to improve or create knowledge and competence for itself (10). This could in turn lead to new competitive advantage(s); a revised firm structure and mission; and allow the firm to shed old and ineffective procedures (11). In other words, the new endowments and endowment combination, through organisational learning acts as a renewal agent (12) for the firm as it is integrated into the firm's current endowment base (13).

Although only briefly referred to in this thesis, it should be noted that external market participants such as suppliers, customers, other competitors and the industry also contribute directly to the firms endowment stock which can be transferred and assimilated (b) to the firm also through organisational learning. Market participants (from within the domain and external market environment of the specific venture), act as input (6) into the venturing process along with the endowments the firm has allocated to internal venturing.

Furthermore as indicated in Figure 3.4 the separation between the firm's internal environment and external environment is indicated by the dashed line near the edge (d). Therefore, the ICV process is conceptualised as a boundary spanning operation because the search operation scans for inputs across the boundaries of the firm and the boundaries of various search domains, which increases environmental variety for the parent firm.

The theoretical framework also proposes that the dynamics of internal venturing can help the firm ensure that it proactively matches external dynamics with the internal variety and dynamics venturing creates. Furthermore, strategic relatedness, relative absorptive capacity and knowledge management systems (c) contribute to how effectively the resources, knowledge and competence are transferred to the firm.

3.7 Summary

This chapter conceptualised a theoretical framework of how Internal Corporate Venturing (ICV) can lead to corporate renewal. Corporate renewal was discussed as a process that involves the acquisition or creation, assimilation and usage of endowments from a variety of learning domains to expand the strategic options available to the firm. If sufficient linking (organisational learning) processes are in place between these new endowments and the firm's corporate context these endowments lead to new competitive advantages for the firm which, leads to a change in the firm's corporate context.

Based on this view of renewal, the theoretical framework was conceptualised as a process that can act as a solution to the renewal dilemma using its ability to create an entrepreneurial culture that facilitates idea generation, as well as its boundary spanning activities that involve scouting, analysing, filtering, and acquiring endowments from the internal and external environment. Furthermore, the theoretical framework proposed that internal venturing creates endowments through organisational learning and the understanding of the relationship among the antecedents and outcomes of corporate venturing that result from interaction with the variety of learning domains of the venture portfolio. Additionally, the theoretical framework depicted the learning that occurs during the venturing process could form a feedback loop to make sure that endowments from other market participants acts as input and forms the basis for continuous learning.

The theoretical framework links internal venturing to renewal by proposing that the endowments acquired and created during the internal venturing process can be transferred, assimilated, and captured by the firm to become part of its endowment base through organisational learning. Furthermore, the theoretical framework proposed that the firm uses and leverages these endowments to create competitive advantage and that it leads to an adaptation of its corporate context and hence to renewal.

Following the basic description of the theoretical framework, this chapter expanded on the theoretical framework firstly proposing that the effectiveness of the theoretical framework is dependent on knowledge management systems that facilitate the learning, a firm's relative absorptive capacity, and the balance the ICV programme obtains between related and unrelated ventures. Secondly, the environmental context of internal venturing examined and it was proposed that, internal venturing match external dynamics, with the internal variety and internal dynamism which venturing creates. The chapter concluded with a description of internal venturing dynamics and a graphical representation of the theoretical framework. The next chapter outlines the methodology used to conceptualise and develop the theoretical framework presented here and how outlines the methodology used to assess the theoretical framework in practice.

Chapter 4: Research design

4.1 Introduction

The main objective of this chapter is to describe the methodology used to develop the theoretical framework of Internal Corporate Venturing (ICV) as a renewal tool as explained in Figure 3.4. Furthermore, this chapter outlines the research design used in the second phase of the study, to assess the theoretical framework, by comparing it to a case of ICV at a large development bank. This study makes use of a qualitative mixed-method research methodology by utilising both Grounded Theory and a case study design to investigate the research problem of how internal corporate venturing can be used as a tool to instigate sustained corporate renewal. This is outlined in Figure 4.1.

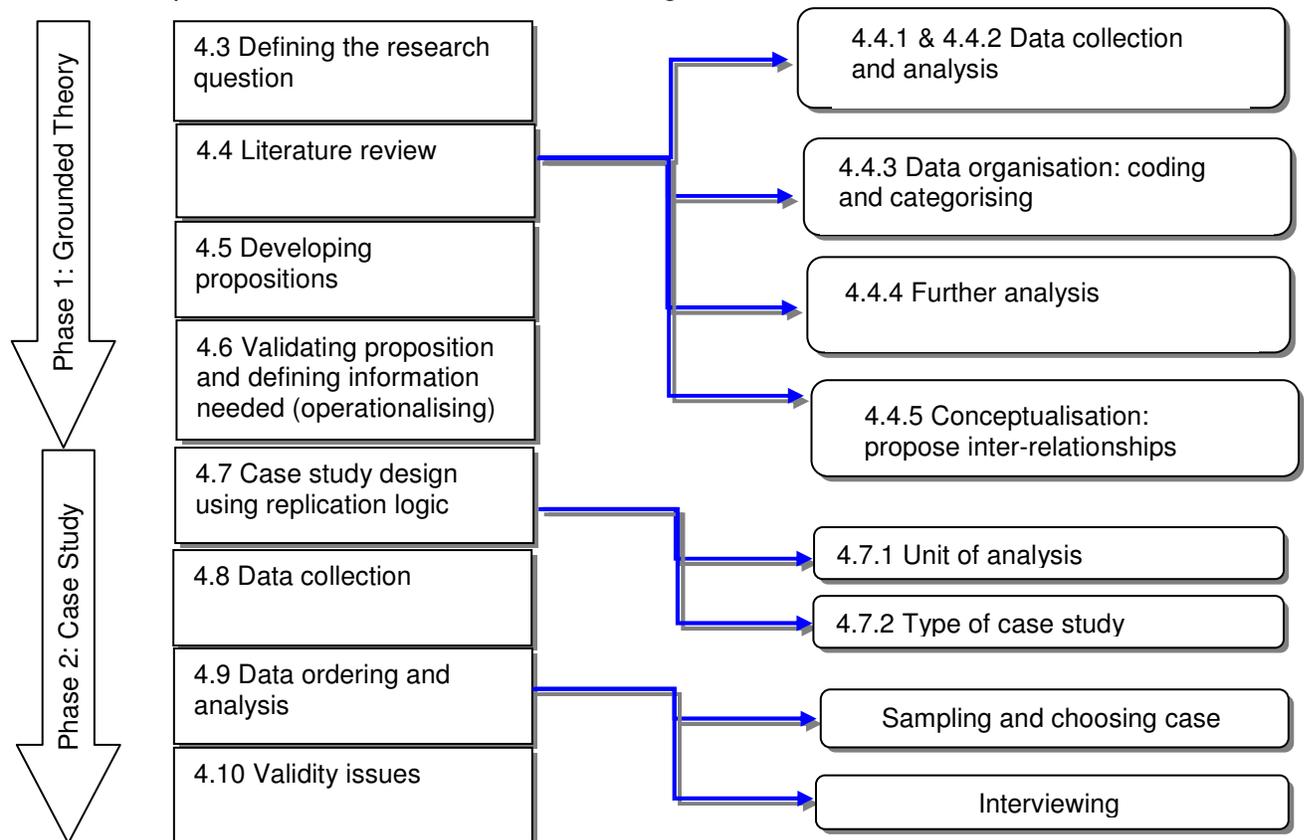


Figure 4.1 Graphical representation of the research design

4.2 The research methodology and design

As indicated in Figure 4.1, the first phase of this study used the Grounded Theory approach to research, as presented by Glaser and Strauss (1967). The rationale for this choice being that Grounded Theory is a qualitative research method that focuses more on theory development than theory testing or assessment (Steyn, 2003; Yin, 1993; Moghaddam, 2006). In essence, this method gradually develops theory based on conceptual ideas that emerge from the constant comparison and categorisation of systematically collected and analysed data (Eaves, 2001). The basic idea behind the method is to analyse textual data (the literature) to identify variables (in Grounded Theory referred to as categories concepts and properties) and their inter-relationships. By simultaneously analysing, comparing and categorising data, the method provides structure to research without sacrificing the flexibility needed to adapt or modify the research question and theory as it emerges (Eaves, 2001).

To link Grounded Theory to the case study methodology, the theoretical framework was synthesised into a set of propositions, which were validated as a “first theoretical case study” by operationalising the propositions, by means of an interview with an expert in the field of corporate venturing and renewal, and the consequent development of an interview guide.

In the second phase as illustrated in Figure 4.1 the qualitative case study methodology used replication logic with the aim of determining whether the propositions developed in the first phase transpired in the second “real-life” exploratory case study. For this reason, the theoretical framework’s relational aspects represented by the theoretical framework’s propositions make the framework suitable for explanatory case studies (Yin, 1993). In other words, as a second stage of the study, the research design determined how the propositions were assessed. What this involved is the comparison of the theoretical framework to a case study of ICV at a large established development bank in Southern Africa to determine if the outcomes in the case are similar to those predicted by the theoretical framework.

For this reason, the case study research design used replication logic whereby two or more cases (the theoretical framework and the exploratory case) were included in this study because the researcher expected to find similar results for both cases (Yin, 1993:34). Hence as a research design, the qualitative exemplary case study approach was chosen. The

rationale firstly being that case studies are an appropriate method when the researcher is trying to attribute relational aspects to events (Yin, 1993). In the context of this study, these events were ICV and renewal. Furthermore when the research topic, comprising the research question and unit of analysis (see section 4.3 and 4.7.1), is broadly defined and cannot be readably distinguished from its context, or that complex and rich interactions exist within the context, a case study design can be followed (Yin, 1993:xi-xiii). The rationale for choosing exemplary case study in particular is that the chosen case study shows strong examples of the relational events, which the theoretical framework predicts as leading to renewal.

By developing the research question, theory and propositions from the literature, prior to entering the field, some shortcomings of using Grounded Theory and explorative-exemplary case studies are avoided (Yin, 1993). For example, Grounded Theory does not favour theory testing or assessment while the case study method does. Furthermore, the conceptualised framework creates a framework for the research design because the specific propositions that were synthesised (see section 4.5) help to guide and facilitate the case study research (Yin, 1993).

Although Grounded Theory and case study methodology are distinct, they are not mutually exclusive (Yin, 1993:61-65). For this reason, case study designs can be used in combination with Grounded Theory methodology. In fact, this approach has previously been used successfully by Keil (2004:806) in a study focusing on external corporate venturing in rapidly changing environments. By using case study design in combination with Grounded Theory methodology, the study benefits from the Grounded Theory's ability to develop theory grounded in qualitative data as well as from a case study research design's ability to assess the theory. A comparison between the two approaches is outlined in Table 4.1.

Table 4.1: Comparison of case study and Grounded Theory methodology

	Case study	Grounded Theory
Assumes a single objective reality that can be investigated following scientific inquiry	YES	YES
Can be used for theory building	YES	YES
Favours theory testing/assessment	YES	NO
Considers the context as a essential part of the phenomenon of interest	YES	YES
Favours multiple data collection techniques	YES	YES
Suited to quantitative data	YES	NO
Suited to qualitative data	YES	YES

Source: Adapted from Yin (1993:64)

Hence, the study took advantage of the constant comparison and pattern matching techniques of Grounded Theory to develop the theoretical framework and tested it by using a single-exploratory case study and replication logic.

4.3 Defining the research question

As illustrated in Figure 4.1, the first step in the research design involves defining the research question. The Grounded Theory methodology gradually builds theory from data, allowing the researcher to modify the research question(s) as the study progresses and concepts emerge (Glaser & Strauss, 1967). Therefore, the initial research question was adapted and revised during the first phase of the study.

After an initial literature review, it became apparent that the implementation of a corporate venturing programme could be carried out in a number of ways. In addition, upon further examining of the literature, Block and MacMillan's (1993) advice, that the implementation and establishment of an Internal Corporate Venturing (ICV) programme could not be separated from its specific context, was taken into account. Furthermore, a theme that was encountered repeatedly in the literature was the role corporate venturing played in organisational learning and renewal (Kunkel, 2000; Salmenkaita, 2001; Antoncic & Hisrich, 2003), which provided some evidence that corporate venturing could lead to corporate

renewal, because it allows the firm to engage in activities that lead to corporate renewal. The literature highlighted the potential of ICV to instigate renewal due to the following reasons:

- (a) its ability to use and re-combine corporate resources with new ones (Elfring & Foss, 1997; McGrath *et al.*, 1994; Backholm, 1999)
- (b) its ability to create an innovative and entrepreneurial culture that facilitates idea generation (Evald, 2003:5)
- (c) its ability to expand the firms environmental variation (Salmenkaita, 2001; Elfring & Foss, 1997; Knight, 1989)
- (d) in addition, internal venturing ability to use these to create and acquire new knowledge and competence for the parent firm (Zahra *et al.*, 1999; Keil, 2004). Hence the following research questions emerged:

Hence, the following research question emerged:

How can an internal corporate venturing programme be used as a tool to instigate sustained corporate renewal?

Once the research question was established, the literature review became more focused on the relational linkages between ICV and corporate renewal, which led to the emergence of a theoretical framework of how ICV can be used as a tool to instigate renewal. This process is described in the next section.

4.4 Developing the theoretical framework

To better contribute to the understanding of corporate venturing as it relates to renewal, the theoretical framework proposed in Chapter 3 was developed by collecting data from various secondary sources. This data was analysed and organised using open coding analysis, which allowed for categories of data and for the conceptualisation of the inter-relationships between them to emerge, thus forming the theoretical framework.

4.4.1 Data collection

The Grounded Theory approach advocates the use of multiple data sources to provide different viewpoints on the same phenomenon, which proves to be appropriate when building a theory or model as it enhances construct validity and reliability (Kinach, 1996). Also as originally conceptualised by Glaser and Strauss (1967), this places few limits on the techniques used for data collection or the type of data collected. It furthermore ensures the flexibility needed to change the theoretical framework as new data becomes available (Kinach, 1996 ; Yin, 1993:47)

The primary data source for this study was firstly the literature on the theoretical case of ICV and its related fields. The literature consisted of books, doctoral and master studies, case studies, newspaper sources, working papers, and various journal articles found on electronic databases such as Emerald, EBSCOhost, ProQuest, ScienceDirect, Blackwell Publishing, and Google Scholar.

4.4.2 Data analysis

As the research question evolved, the existing literature on ICV and its related fields was used as textual data and analysed according to Grounded Theory principles. This involved the researcher making notes in the margins of the literature upon the first reading and comparing the literature and the notes (Moghaddam, 2006). This process allowed for the emergence of some of the initial constructs in the theoretical framework. To constrain irrelevant variation, the researcher then filtered the literature, and re-read and summarised the more applicable sources.

4.4.3 Data organisation

Data were summarised using hand-written research memos, diagrams, and documents compiled with computerised word processing software. This allowed for the clarification of the initial constructs along with the emergence of additional constructs and their inter-relationship. During the process, data organisation took place and the internal venturing programme and the venturing process as described in the literature was identified, labelled and categorised by essentially asking “what is this about?” and “what does this refer to.” Once organised, further data analysis could take place.

4.4.4 Further analysis

Further analysis identified ICV as the main category in the research and some of its inter-relationships with the venturing firm, organisational learning, and renewal were recognised. This led to a more focused literature search. The results of the literature analyses were then compared to the initial data. More formally, within the Grounded Theory approach this process is called open coding analysis (Borgatti, 2004; Pandit, 1996). To illustrate, labels such as success factors, management support, the reason for venturing, resource allocation and the definition of corporate venturing were used to group and categorise the various pieces of information found in the literature. In addition, properties were attributed to these categories, either directly from the literature or in some cases deduced by the researcher.

For example, consider the following text extracted from Von Hippel (1977:163)

Corporate venturing is an activity, which seeks to generate new business for the corporation in which it resides through the establishment of external or internal corporate ventures. An internal corporate venture, in turn, is an individual or group within the corporation which has taken on responsibility for all aspects of the task of:

Developing a new product

Bringing it to market

Carry it through at least its initial phases of marketplace activity

It is this characteristic of corporate venturing – vesting of responsibility of all aspects of the development and marketing of a new product in one executive, the venture manager – which distinguishes corporate venturing from a range of other organisational stratagems aimed at the same goal of new product development

This piece of text is predominantly about the definition of corporate venturing and hence it was categorised accordingly. In addition, from the text quoted above some properties of corporate ventures emerged. Here for example it emerged that one manager (or managing team) is responsible for all aspects of developing and marketing a new product.

During the process of reviewing the literature, the author also used inductive and deductive reasoning to relate categories and properties to one another, using a process called informal axial coding (Borgatti, 2004). This allowed the researcher to compile the data in new ways (Pandit, 1996), which formed the basis of the relational links between the internal venturing process and corporate renewal.

4.4.5 Conceptualisation

Once this process of analysis was completed, selective coding was used to allow the theoretical framework of how ICV (the main category) can lead to corporate renewal emerge. In simple terms, this involved the researcher conceptualising inter-relationships between all the categories and integrating them into one theoretical framework (Borgatti, 2004; Pandit, 1996).

4.5 Developing propositions

After developing the theoretical framework, propositions were derived from the main categories. This involved synthesising the theoretical framework into a set of propositions, which indicates that internal venturing leads to corporate renewal in four steps:

1. The allocation and/or co-optimisation of selected initial endowments from the firm's corporate context to the venturing process, which are used to acquire a set of endowments that is new to the firm.
2. The initial and new endowments are combined in new and innovative ways within the firm's innovation and venturing context, which leads to the creation of new idiosyncratic endowments.
3. These newly acquired and created endowments (knowledge and competence in particular) are then transferred to the firm through organisational learning.
4. These endowments become part of the firm's endowment base, which leads to a change in a firm's corporate context, and consequently to renewal.

These outcomes are intangible, which makes them difficult to operationalise and measure (Tukiainen, 2004:20); therefore, the propositions are discussed in more detail in the following subsections.

4.5.1 Utilisation of initial endowments

From the literature reviewed in section 2.6.1, one of relational aspects that has emerged from the literature is that various inputs are taken from both the internal and external environment and transformed into new venture ideas. These ideas are selectively filtered and then developed into new ventures.

During the development of the basic framework (section 3.3), it was deduced that one of the major inputs into the internal venturing process is the firm's initial endowments as well as endowments from the firm's environment. More specifically, these endowments are applied in the search for venture ideas to be exploited (Salmenkaita, 2001). Assuming that this first step is indeed performed by the internal venturing programme, this acts as an instrument for environmental scanning and analysis.

Therefore, the various venture management teams apply the initial endowments for an environmental scan and analysis, and perform peripheral knowledge management tasks. The environmental scan is executed across various learning domains. Assuming that the new knowledge and information that resulted from the environmental scan and analysis, is communicated to the venturing firm, along with the possible implications and changes it might entail, this process can lead to new endowments being created for the firm (Merali, 2001). For example, from a market analysis completed in a venture proposal the members might become aware of a new technological development, which a firm can use to improve one of its business processes.

Secondly, once an idea has been accepted, the venture is started. This involves using some of the initial endowments to engage in tasks such as selecting a venturing team and to establish a network of partners (for example, financiers, consultants, suppliers, and potential clients). This leads to new endowments as each of the venturing team members (a resource in themselves) contribute their unique endowments to the venture, therefore resulting in the acquisition of endowments that are new to the firm.

Proposition 1: As a first step to renewal, the initial endowments allocated to or co-optimised within the internal venturing programme, are used to acquire a set of endowments that is new to the firm.

How effective the venturing programme will be at creating new endowments depends on situation-specific factors. Therefore, the contextual conditions that are necessary for the step to transpire are outlined below.

Firstly, the firm has to decide how much of its endowments (resources in particular) it wants to use for the exploitation and strengthening of its current business and competence, and how much it wants to allocate to searching for and creating new endowments and business through business development strategies such as internal venturing (Priya & Viswanathan, 2005). Here, it is assumed that the more initial endowments available to the internal

venturing programme's search activities, the larger and more in-depth its search can be for new endowments (Salmenkaita, 2001; Fast, 1979a). In other words, more initial endowments lead to a greater amount of new endowments and to a greater variation in those endowments, because the firm increases its search into more learning domains (Elfring & Foss, 1997). Although the process needs initial endowments as input, Fast (1979b) proposed that when the venturing programme has too many resources, it could suffer from the inefficient usage of these resources. However, due to the implicit nature of knowledge and competence, it is assumed that the more knowledge and competence available, the greater the variation in learning domains. In summary, the more endowments the venturing programme has available, the more endowments it can create and acquire, with the exception of material resources where a balance needs to be obtained between too much and too little resources.

Secondly, it is assumed that the endowments the firm chooses to allocate to the internal venture, or co-optimize within the venturing programme, will affect the programme's ability to create new endowments. Initial endowments allocated by the firm can be seen as the venturing programme's endowment base and the nature of this endowment base can restrain the firm's ability to create new competence (Keil, 2004; Block & MacMillan, 1993; Dushnitsky & Lenox, 2005a). Finally, the literature review showed that an allocation process is reliant on the structure, culture, and political processes involved in venturing (Fast, 1979a; Winters & Murfin, 1988; Elfring & Foss, 1997; Priya & Viswanathan, 2005).

Therefore, it is inferred that the effectiveness of the firm at acquiring new endowments through internal venturing depends on the following contextual conditions: the amount of initial endowments available, which endowments are available, and the political processes and cultural elements that influence the allocation process.

4.5.2 Combination of new and old endowments

To develop the internal venture, the initial endowments and those acquired in the previous step are used, and combined in new and innovative ways (Sorrentino & Williams, 1995). This allows the venturing team to gain insight into the relationship between these endowments, and between the endowments and the environment in which they are used. Furthermore, the usage and combination of the endowments within the venture's environment, and the understanding that develops of the relational aspects between the endowments and the environment, leads to the creation of new unique knowledge, and

competence (Nonaka, 1994). This knowledge and competence develops because of the superior resource investments and allocation decisions that focus on specific idiosyncratic competencies that can be made (Backholm, 1999). The superior resource allocations in turn can be made because of the understanding about the relational aspects between the endowments and the environment that develops, which also help with the alignment of the knowledge structures and the environment (Raub, 2001). In short, during the venturing process, new knowledge is created and competence built because of the innovative combination and utilisation of pre-existing endowments, therefore the following is proposed.

Proposition 2: As a second step towards renewal, it is proposed that some of the initial endowments, along with the newly acquired endowments, are used by the venture and combined in new ways, leading to the creation of new resources and idiosyncratic knowledge and competence.

As discussed in Chapter 3.3 internal venturing allows the venturing programme to deploy its endowments in various different business areas on a selective basis. It is assumed that each venture requires the firm to search for new endowments unique to its specific business area (Burgelman, 1983), and that the venturing programme enters a variety of business areas simultaneously. The result being that endowments can be transferred between business areas on a selective basis (Salmenkaita, 2001), which leads to the creation of highly idiosyncratic endowments. These endowments can then be transferred to the firm by means of organisational learning.

4.5.3 Knowledge, and competence transfer through organisational learning

The development of competence can be defined as the process of creating and/or acquiring new kinds of resources and repeatable patterns of action that a firm uses to accomplish tasks (Sanchez, 2001:7). Note that by using this definition, competence includes the resources and knowledge created or acquired during the venturing process. Therefore, when the newly acquired knowledge and competence is diffused, codified, and absorbed or accepted within a firm, the insights and the understanding about the relational aspects between the endowments and the environment that develops during the internal venturing process can become part of and modify the firm's endowment base (Merali, 2001; Sanchez, 2001).

Organisational learning can be seen as the process of scanning for, creating, codifying, diffusing and absorbing knowledge and competence (Merali, 2001:44-45), that result in a change in beliefs about the network of relationships that form the combined knowledge base of a firm (Sanchez, 2001). Furthermore, knowledge accumulation and capability building in itself is a learning process that takes place within the venturing context (Vanhaverbeke & Kirschbaum, 2002:4)

Thus, the knowledge and competence created at the venture level can be transferred to the firm using the learning process that occurs during venturing (Vanhaverbeke & Kirschbaum, 2002:4). Therefore, the following can be proposed:

Proposition 3: The endowments acquired and created during the venturing process are transferred to the firm by means of organisational learning.

The organisational learning that occurs because of corporate ventures could lead to renewal.

4.5.4 Renewal capability of internal corporate ventures

The organisational learning that takes place can help sustain and create competitive advantage because the venturing process teaches the firm how to make superior resource investments and allocation decisions that are focused around specific idiosyncratic competencies (Backholm, 1999). Creating a firm that favours learning might therefore improve a firm's odds of generating corporate renewal (Kola-Nyström, 2005:87)

When the new knowledge and capabilities are accepted and used within the firm the endowment base is changed, which can lead to a change in the firm's competitive approach and business model (McGrath *et al.*, 1994; Maes, 2006; Zahra, 1996). Consequently, the new knowledge and capabilities can cause renewal to takes place through a transformation of the firm's corporate context. Therefore, the following is proposed:

Proposition 4: The new knowledge and competence created by internal venturing become part of the firm's endowment base, leading to a change in a firm's competitive approach, and hence to renewal.

The next section briefly outlines the steps taken to enhance the relevance of these propositions and how they were operationalised.

4.6 Operationalising the propositions

To assess the theoretical framework during the case study, these propositions were operationalised by defining the information needed to assess the propositions, with the help of correspondence entered into with an expert in the field of corporate venturing and renewal. The respondent was chosen based on her accessibility and her expert knowledge of venturing and renewal. Before the interview, both a summary of the study and the theoretical framework were sent to the respondent for comments. After the interview was conducted, the theoretical framework was adapted and the propositions were operationalised by developing a set of questions that would act as a guide during interviews conducted as part of the case study. The correspondence and interview conducted therefore served as a method to refine the theoretical framework and operationalise the propositions before examining the case study.

4.7 Case study research design

As shown in Figure 4.1 in the second phase of the study, the researcher used case study methodology, using replication logic (Yin, 1993) to assess the theoretical framework developed in the first stage. The assessment was performed by comparing the developed theoretical framework to the ICV programme at the Development Bank of Southern Africa (DBSA), with the aim of determining whether ICV in practice produced the outcomes as proposed. The next section discusses how the unit of analysis was defined, an overview is given of the case study designs, followed by how the chosen case study was selected.

4.7.1 Unit of analysis

The use of a case study design necessitated a formally stated unit of analysis (Yin, 1993; Keil, 2004). In Grounded Theory methodology individuals, collectives, organisations, or institutions are not appropriate units of analysis; although the actions that they perform are (Eaves, 2001). For this reason, these actions can comprise interventions, phenomena, incidents, interventions, events, or social actions (Eaves, 2001; Mouton, 1996). Accordingly based on the research question, the unit of analysis was the intervention of an ICV programme serving as means to instigate corporate renewal. An intervention in the context of this study refers to the fact that the internal venturing programme intends to produce a set of outcomes that would not have existed in the absence of the programme (Yin, 1993).

Embedded in this unit of analysis are the steps or phases that the conceptual framework follows, to achieve strategic renewal, each step with a set of outcomes:

- The co-optimisation and allocation of resources knowledge and competence to the venturing process
- The resource, knowledge and competence (and combinations thereof) created during the process of internal venturing
- The transfer of these back to the firm through organisational learning
- The usage of this knowledge to create new competitive advantage and the renewal of the key concept, ideas and assumptions on which the firm is built.

These outcomes specify what should be explored in the case study and serve a basis for the selection of the exemplary case study. This along with the type of case study followed is discussed in the following section.

4.7.2 Type of case study design and selection of cases

Theoretical sampling, as also prescribed by Grounded Theory (Corbin & Strauss, 1990; Pandit, 1996), was used to select the case. Theoretical sampling involves the collection, analysis, and comparison of data specifically to search for different properties and to facilitate the emergence of theory (Dick, 2005; Correia & Wilson, 1997; Kinach, 1996). Viewed from this perspective, it is argued that the literature in itself served as the first “cases study” or units of analysis, which lead to the development of the initial proposed framework using Grounded Theory. As a second step, a single-exploratory case was selected to compare with the theoretical framework, based on the information required to reach saturation. That is, the case was selected based on the data needed to assess the propositions.

The Development Bank of Southern Africa (DBSA) was identified as an empirical case for assessing the theoretical framework based on the Bank’s accessibility and the fact that it met the following criteria:

- The case had to have an internal venturing programme
- There was a need for renewal
- The importance of organisational learning and knowledge (endowment) management was recognised.

In other words, the DBSA was chosen, based on its relevance to the theoretical framework. The DBSA showed strong, positive examples of a knowledge based learning firm with an internal venturing programme and a need to instigate renewal.

4.8 Case study data collection

Data for the case was gathered from general data about the environment in which the DBSA operates and more specific secondary company data sources such as internal research articles, press releases, corporate web pages, and annual reports. However, the primary data for the case were the collected interviews conducted with key individuals involved in the ICV programme.

Initial contact was made with the head of venturing at the DBSA by telephone and a letter briefly introducing the study and asking for assistance (refer to Appendix A). After the initial contact was made, a summary of the study and framework was sent to the DBSA. Once the head of venturing considered the summary of the study and the theoretical framework, she provided the researcher with a list of possible respondents to be interviewed. Due to time and resource constraints, these respondents had to be screened to ensure that the most appropriate respondents for the study were contacted and interviewed.

Since the purpose of the interviews was to assess the theoretical framework by critically comparing the synthesised propositions with ICV at the DBSA, the convergent interviewing technique (Dick, 1998) was used to conduct the interviews. Convergent interviewing allows for general and open-ended questions, followed by specific probing questions that can be asked in reference to the propositions. This form of interviewing is flexible enough to adapt to each specific context and individual (Correia & Wilson, 1997; Calloway & Knapp, 1995).

The respondents contacted included venture managers, divisional heads within the Bank, and the head of corporate venturing. Of the 21 individuals contacted, four employees of the Development Bank of Southern Africa agreed to participate in the interview process. The interview questions were aimed at determining the structure and process of the venturing programme in the DBSA, and the propositions pertaining to the theoretical framework. The interview entailed asking broad questions around the venturing programme, the respondent's involvement in the programme and the learning that occurred during the internal venturing process (refer to questions 1 – 12 in Appendix B). More specific questions were then asked, aimed at finding the relationship between internal venturing, endowment

usage, creation and transfer, as well as how venturing contributed to renewal (See questions 13 -17 in Appendix B).

Each interview involved one respondent and interviewer. Interviews were audiotaped with a high quality digital recorder for the purpose of transcription and comparison to notes taken during the interviews, with the permission of respondents (Dick, 1998). This also allowed the interviewer to focus on the task rather than trying to write down everything that was said. The interviews were conducted in the respondents' work environment, which generally provided little distraction. Finally, the four interviews were transcribed and compared to one another and notes taken to increase reliability (Dick, 1998; Dick, 2005; Correia & Wilson, 1997).

4.9 Data ordering and analysis

The data ordering and analysis for the case study took the same approach as for the first phase of the study (refer to section 4.4.). That is, once the interviews were transcribed, data ordering and analysis took place simultaneously. This involved examining the collected data by assessing whether similar results occurred in the case study as those predicted by the theoretical framework. In other words, data for the case study was analysed in accordance with a replication question grounded in the information required to reach theoretical saturation (Strauss & Corbin, 1990).

4.10 Relevancy issues

The methods used for quantitative studies to analyse data and to validate results are less appropriate for qualitative methods. Qualitative studies do not provide the full evidence in a manner that is immediately accessible, and therefore statistical analysis is inappropriate (Pandit, 1996). Consequently it is important to chart the process (draw a diagram) as the theory emerges by being selective in what is included, but still presenting it in such a way that it creates a meaningful picture and points to the critical junctures and breakthroughs (Moghaddam, 2006). This step was completed in the conceptualisation phase (Chapter 3).

In addition, because the Grounded Theory methodology relies on studying multiple data sources, incidents and cases, and comparing these with one another, validity (in its traditional sense) as a measure of the quality of the theory does not apply (Pandit, 1996). A theory is thus considered valid or rather relevant if the researcher has reached a point of

theoretical saturation, and when the theory is understandable to those who operate in the environment studied and one can demonstrate how, why and from where early concepts and categories were derived (Gorlenko, 2006:17). In other words, the theory is relevant if it is saturated and pragmatically useful (Pandit, 1996; Gorlenko, 2006).

Additional efforts were made to enhance the relevancy of the theoretical framework, for instance consulting an international expert in the field of corporate venturing, Sari Kola-Nyström. The unit of analysis was also defined broadly and in accordance with the research question. As Yin (1993) points out by defining the unit of analysis broadly and in accordance with the research question, the internal validity of the study is increased along with the likelihood that the findings of the case study can be generalised to other cases of ICV.

4.11 Summary

This chapter described the methodology used to develop the proposed theoretical framework and the research design used to assess the theoretical framework. In the first phase of the study, Grounded Theory was used to develop the theoretical basis of the study, by the constant comparison and analysis of the corporate venturing literature and its related fields. There after the theoretical framework developed was synthesised into an assessable set of propositions, with the help of an international expert in the field of corporate venturing and renewal, and operationalised by developing an interview guide. In the second stage, an exemplary exploratory case study design was applied to determine whether the propositions developed from the proposed theoretical framework was applied in practice. In other words, the proposed theoretical framework was compared to a case of ICV at an established Southern African firm using replication logic. The purpose of the comparison was to determine if the outcomes of the case were similar to those anticipated in the theoretical framework. By using a case study research design, in combination with the Grounded Theory, the study benefits from the Grounded Theory's ability to qualitatively develop the theoretical framework grounded in theoretical data as well as from a case study research design's ability to assess the developed theory.

This chapter also discussed the evolution of the research question by reviewing the literature using Grounded Theory principles and refining the literature search. To allow for easier analysis, data organisation took place by coding and categorising the more relevant literature that allowed for the clarification of categories and constructs as well as their inter-relationships. This process facilitated the identification of the intervention of ICV as the main

category (or unit of analysis) as well as the inter-relationship with other constructs and categories. The main category or unit of analysis furthermore specifies what will be explored in the exploratory case study. The next chapter discusses the results of the case study by providing an overview of the Development Bank of Southern Africa, its ICV programme and a comparison between the proposed theoretical framework and the case of ICV at the DBSA.

Chapter 5: Results

5.1 Introduction:

The previous chapter described the process followed to propose the theoretical framework of how Internal Corporate Venturing (ICV) can be used as a tool to instigate renewal and the process followed to assess this framework in practice. The result of this first phase, developing the theoretical framework, was shown in Chapter 3 by means of the conceptualisation of the proposed framework. The current chapter focuses on the second phase of the study by presenting the case of ICV at the Development Bank of Southern Africa (DBSA) and comparing it to the proposed theoretical framework.

The chapter proceeds by firstly providing the necessary background and overview of the DBSA, and then explains why the DBSA was chosen as an exemplary case study. Thirdly, it describes the role of senior management in the corporate venturing programme, fourthly illustrates the role of venture management during the corporate venturing process, and finally compares the proposed theoretical framework to the case of corporate venturing at the DBSA. The comparison focuses on the renewal effects of ICV at the DBSA and the theoretical framework conceptualised in Chapter 3 in terms of the propositions synthesised in Chapter 4.

5.2 Overview of the Development Bank of Southern Africa

To provide the context and background of the case study (Babbie & Mouton, 2001), this section provides an overview of the DBSA. The DBSA is the leading infrastructure development finance institution in the Southern African Region (DBSA, 2006/07). The Bank was established in 1983 by the Republic of South Africa as an integral part of the regional development policies of the time (Muller, 1992:44). Following South Africa's first democratic election in 1994 the Bank became a financially self-sustaining institution by raising funding from domestic and international capital markets, bilateral and multilateral institutions, and internally generated resources (DBSA, 2003/04; Reeds, 2008).

The DBSA is governed by the Development Bank of Southern Africa Act [No. 13 of 1997]. According to the Act the primary purpose of the Bank is "to promote economic development and growth, human resource development and institutional capacity building by mobilising

financial and other resources from the national or international private and public sectors for sustainable development projects and programmes and to provide for matters connected therewith" (Republic of South Africa, 1997).

In short, the Bank's mandate is to deepen the development impact in the Southern African region by advancing sustainable socio-economic development through providing development finance and integrating and implementing sustainable development, particularly in the broad area of economic, social, and institutional infrastructure (DBSA, 2006/07:69; DBSA, 2003/04:2). The Bank therefore implements development solutions, and leverages, integrates and mobilises partners, stakeholders, resources and incentives for sustainable development outcomes (DBSA, 2006/07).

5.2.1 Vision and strategy

Since 2004, the Bank has been accelerating the implementation of its vision with a realignment and renewal programme that adopted strategic flexibility in the implementation of its mandate with emphasis on innovation and capacity building (DBSA, 2003/04:11). This resulted in a sharpened vision, termed Vision 2012, which takes the current socio-economic challenges and opportunities facing South Africa and the Southern African region into account (DBSA, 2004/05a:14). The DBSA's vision is formally stated as "to further the progressive realisation of an empowered and integrated region, free of poverty, inequity, and dependency. To be a leading change agent for sustainable socio-economic development in the Southern African Development Community (SADC) region, and a strategic partner in Africa south of the Sahara" (DBSA, 2004/05b:1).

With regard to the broader Southern African region, Vision 2014 seeks to align its resources and capabilities closely to the development goals, priorities, and timetables of the South African government (DBSA, 2004/05a:19; DBSA, 2003/04:17). In line with the Bank's mandate, Vision 2014 acts as a guide to the Bank's activities and encompasses its key strategic objectives (DBS, 2004/05b:5). Vision 2014 therefore captures the Bank's strategic direction, planned market and business growth trajectories as well as its response to shareholders' expectations.

The DBSA aims to act as a catalyst, integrator, centre of excellence and strategic implementer for development projects, through its role as financier, advisor, and partner (DBSA, 2006/07). The DBSA's strategy focuses on the acceleration of infrastructure

development, the building of municipal capacity, and supporting broad-based black economic empowerment within set parameters. It does so through the application of knowledge, skills, and institutional resources to increase the delivery capacity of, and reduce risks in, underdeveloped regions. (DBSA, 2006/07:55; DBSA, 2006). According to the DBSA's Activities Report (2004/05:1) the strategy is supported by eight strategic thrusts, which encapsulate the Bank's realisation of the changes needed to remain competitive. These strategic thrusts are:

- broadening and deepening of development impact
- knowledge management
- smart partnerships
- responsible risk taking and risk management
- black economic empowerment
- innovation and entrepreneurship
- performance recognition and reward
- alignment of strategy, structure, processes and culture

One of the key strategic thrusts of the Bank's strategy is innovation and entrepreneurship, therefore they focus on nurturing a culture of Corporate Entrepreneurship (CE) (DBSA, 2004/05^a:20). In the context of the current study, this implies that the Bank is meeting a vital pre-requisite for ICV: it is working towards developing an entrepreneurial culture (section 2.6.1.2)

To help the Bank operationalise its strategy the Board of Directors sets annual strategic objectives and determines performance criteria by utilising the Balanced Score Card (BSC) approach (DBSA, 2003/04:50 - 51) (DBSA, 2007/08:49). The detailed planning and implementation of these objectives form part of management's responsibilities, while the Board monitors the achievements of the set objectives through Board Committees (DBSA, 2007/08:84)

5.2.2 The objectives and activities of the Bank

According to the Development Bank of Southern Africa Act [No. 13 of 1997], the main objectives of the Bank are to promote economic development and growth, to develop human resources, to build institutional capacity and to support development projects and programmes. This is achieved by:

- mobilising resources from the private and public sector,
- appraising, planning and monitoring the implementation of development projects and programmes,
- facilitating the participation of the private sector and community organisations in the development projects and programmes,
- providing technical assistance (particularly human resource development and training), for the identification, preparation, evaluation, financing, implementation and management of developmental programmes and projects (Government Gazette, Vol. 382, No. 17962, 25 April 1997).

The secondary objectives of the Bank revolve around partnerships with various role players in the public and private sectors (DBSA, 2006/07:69). These objectives includes providing assistance to other regional development¹³ incentives to help achieve an integrated finance system for the advancement of the region and the assistance of other institutions in the international public and private sectors with the management of specific funds. (DBSA, 2006/07)

These key strategic objectives encompass the co-deliverance of social and economic infrastructure, poverty reduction, the provision of the skills and resources required to build human and institutional capacity, the reduction of unemployment through job creation and skills development, the promotion of broad-based economic growth, cooperation, integration and prosperity as well as the achievement of internal and external sustainability (DBSA, 2006/07). Therefore, the DBSA adheres to the principles of sustainable development by also providing projects and programmes with advice and technical assistance (Muller, 1992:44; DBSA, 2006/07). To following section describes the Bank's external environment.

5.2.3 The external environment

As a government-owned institution, the DBSA operates as development financier and supports the government in achieving its infrastructure and capacity building objectives.

¹³ Development here refers the creation of the progressive changes needed to bring about positive growth in human society

(DBSA, 2006/07:18). Although being an institution owned by the South African government, the Bank still enjoys operational autonomy in its management and everyday operations (DBSA, 2007/08:49; DBSA, 2006/07:55). The Bank's shareholder interest is represented by the South African Minister of Finance, who also acts as the Governor of the Bank and determines the Bank's mandates. The Bank therefore plays a crucial role in deepening the development impact of the government's infrastructure programme (DBSA, 2006/07:11).

The DBSA therefore operates in an environment of constant change driven by both international and domestic forces (DBSA, 2006/07). Despite the challenges that international forces such as globalisation, technological progress and climate change brings, the Development Bank also faces particular challenges in the domestic and regional spheres in which it operates, particularly concerning development in poorer communities and job creation (DBSA Activities Report, 2005/06). These forces are unique to the Bank and challenge them to find better ways of accelerating development, while ensuring that their efforts are coordinated to keep within their mandate and to maximise the impact on poor communities in a sustainable manner (DBSA, 2007/08:36; DBSA, 2006/07:18). Finding appropriate ways of providing infrastructure on a sustainable basis therefore constitutes a challenge in poor communities and metropolitan areas (DBSA, 2007/08:21), which call for more innovation robust development activism, increased capacity and greater discipline in execution (DBSA, 2007/08:9).

For example, as part of the renewal programme to realise its Vision 2014 the Bank extended its strategic thrust and capacity building initiatives toward innovation and CE (Van Vuuren *et al.*, 2006; Gantsho, 2006:123). One of the major driving forces behind this initiative was the redefinition of the Bank's mandate to include the development of small and medium sized enterprises (SMEs) to create employment as part of its definition of infrastructure development (Malefane, 2008). Another major driving force is the challenge of finding appropriate ways to provide SME infrastructure on a sustainable basis, especially in small, poor communities where traditional mechanisms for funding and delivering are often ineffective (DBSA, 2006/07:29), as well as the increased aggressiveness of the Bank's competitors for the financing of development projects (Gantsho, 2006). The DBSA's experience also shows that due to a lack of interest from other financial institutions and large firms, who prefer projects with a proven track record, the funding of start-up and expansion projects constitutes a challenge (DBSA, 2006/07:34).

5.3 The Development Bank of Southern Africa as case study

As discussed in section 4.7.2 the DBSA was chosen as an exploratory case study due to its relevance to the proposed theoretical framework. That is, the case had to show exemplary cases of the data needed to reach saturation required for relevancy. Firstly, the case had to have an ICV programme, secondly there had to be a need for renewal, and thirdly the firm had to recognise the importance of knowledge and learning.

5.3.1 The need for renewal

The need for continuous renewal stems from the Bank's operating environment and its innovation and entrepreneurship thrust (Reeds, 2008). The social, political, and economic transformation and development of South Africa forms a large part of the Bank's strategic context (DBSA, 2007:12). Changes in the social, political, and economic spheres necessitate an entrepreneurial strategy from the DBSA to adapt to its dynamic environment and the changing needs and expectations of its stakeholders (Reeds, 2008). The South African government, as the sole shareholder, also drives renewal in the form of policy changes (Reeds, 2008). For example in the past, the DBSA was the sole provider of financing to local authorities, however today the DBSA has to bid for that business (Reeds, 2008).

Furthermore, the Bank has recognised that it requires a paradigm shift to provide the kind of innovation that its stakeholders expect. That is to ensure that it makes the best possible use of development resources and that it has the largest possible impact on development the Bank recognised that it should regularly re-aligning itself with the priorities of the South African government (DBSA, 2006/07). This resulted in the Bank embarking on a three phases realignment and renewal programme. This programme emerged, from an inclusive, highly participatory process involving management, staff, and external stakeholders (DBSA, 2006/07:20). The aim of the realignment programme was to make sure that the Bank's culture, processes, and strategy are able to deliver on Vision 2014.

Consequently, the Bank introduced various changes to help accelerate the deepening and broadening of developmental impact. As a first phase, the Bank reviewed its mandate, strategy, mission and vision, structural alignment, and organisational culture. In other words, the Bank reviewed its corporate context. In the second phase it focused on capacity building, governance and institutionalising the new culture. The third phase (still ongoing at

the time of the study) will continue with the implementation of the programme, deepen the values, and enhance the new culture (DBSA, 2006/07), as represented in Figure 5.1.

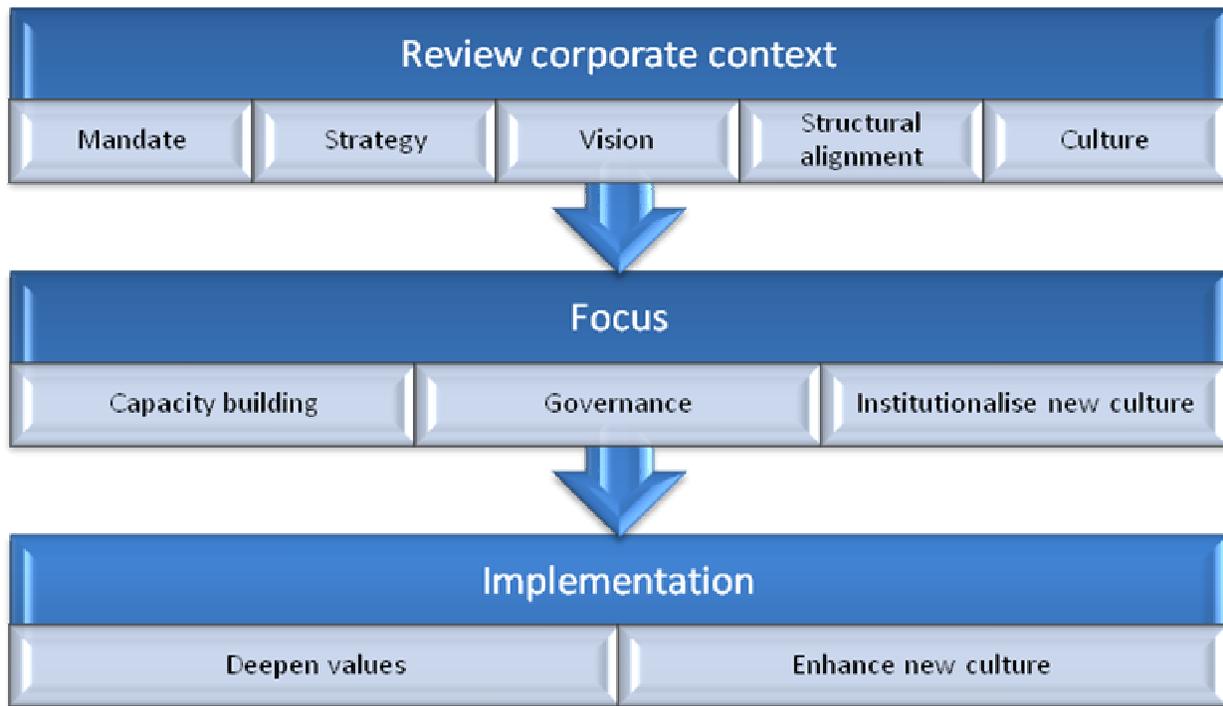


Figure 5.1: The realignment programme at the DBSA in three phases

Source: based on description in DBSA, 2006/07

As will be elaborated on in section 5.4, within the second phase, ICV was utilised as part of the Bank’s drive to renew its corporate context by means of the institutionalisation of a new corporate culture (Van Vuuren *et al.*, 2006). This is discussed in more detail in section 5.4.1.2. The next section discusses the DBSA as a learning organisation to provide the necessary linkages between ICV and corporate renewal.

5.3.2 The Bank as a learning organisation

For the DBSA to be a suitable case study it had to be able to provide the linking mechanisms needed to instigate renewal. One of the conditions for achieving renewal through corporate venturing is the transfer of knowledge and competence acquired and created during the corporate venturing process to the venturing firm (section 2.8). Therefore, the case study had to recognise the importance of knowledge and learning (section 3.2).

In this regard, the DBSA has long operated on the basis that knowledge sharing is critical in increasing internal synergies, enhancing partnerships and achieving its objectives. The DBSA considers itself a *knowledge bank* (Reeds, 2008; Kagarametsa-Phiri, 2008), therefore, it has placed knowledge management and organisational learning into practice with the aim of accumulating expertise and experience, the optimisation of operations from its own knowledge base, and the deployment of the learning that occurred (Blackburn, Khoza, & Tate, 2003:1). This knowledge management focus is therefore a key-value adding component in the Bank's development role (DBSA, 2003/04:23). In fact, the DBSA views the application of knowledge towards customer-oriented innovation and the promotion of organisational efficiency and effectiveness as critical organisational success factors (South African LED Network, 2007).

Therefore, as part of the strategic realignment and renewal process, the DBSA identified and implemented knowledge management as a key strategic thrust (DBSA, 2006/07:44). According to the Bank's annual report (2006/07:44) the implementation of the realignment programme was done through the knowledge management division, which had the following functions:

- the generation of knowledge from its environment by its research function to suggest innovative development interventions;
- the analysis and interpretation of data and information, the integration of external and internal knowledge into a repository and packaging it into a easy to use tool, by the information function; and
- promoting best practices and providing sector analysis and scenario planning by the advisory function.

The broader aim of the knowledge management programme is to build and foster dynamic learning internally and within its network of partners to promote productivity and creative solutions to problems (DBSA, 2003/04:17). Therefore, learning and knowledge management took a central role in venturing. The next section discusses the ICV programme in more detail.

5.4 Corporate venturing at the Development Band of Southern Africa

This section firstly describes how the ICV programme at the DBSA came to be, and secondly provides the context in which venturing took place by describing the role of senior management played in the venturing programme and distinguishing it from the role of the venture manager in the venturing process. As part of the change and renewal programme, two cultural surveys conducted by the Bank called for an initiative to be taken to boost staff morale and to align the firm to ensure continuous development (Van Vuuren *et al.*, 2006). Consequently, a CE training initiative was introduced with the help of the University of Pretoria (Gantsho, 2006:125).

To ensure that the initiative had the most impact, it followed a top-down process whereby top management and senior staff took part in the initiative as a first phase, where-after it was rolled out to professional and other members of the staff (Van Vuuren *et al.*, 2006; Gantsho, 2006). The envisaged impact of the initiative was to stimulate creativity, to revitalise the DBSA and to develop new venture ideas to enhance future development (Van Vuuren *et al.*, 2006). This training initiative, as part of the realignment programme, helped to initiate corporate venturing at the Bank. This is discussed in more detail in the following section.

5.4.1 The role of senior management in the corporate venturing programme

To implement corporate venturing, the DBSA introduced a Venturing Process Model. This involved senior management taking decisions about the strategic importance and necessity of corporate venturing, whether it creates circumstances that will encourage a flow of venture ideas, and how it will design the corporate venturing programme (Van Vuuren *et al.*, 2006:6). The Bank's conceived venturing programme essentially involved declaring a commitment to venturing, establishing a venturesome climate, encouraging a flow of venture ideas through people and training, selecting a strategy to drive the venturing effort, defining venture selection criteria and managing disappointment (Van Vuuren *et al.*, 2006).

5.4.1.1 Committing to corporate entrepreneurship and venturing

As part of its realignment programme and strategic thrust of innovation and CE, the Bank made a commitment to the innovation and CE training initiative. This training initiative was instigated as a combined endeavour by the DBSA Vulindlela Academy, The CEO's Office, the Corporate Strategic Unit and the University of Pretoria (Van Vuuren, Gantsho, & Verwey, 2006:7). To develop the training course, the University of Pretoria adapted and refined their existing course on innovation and CE, based on the DBSA's needs and the results of the survey mentioned earlier.

The innovation CE training initiative started with the Chief Executive Officer (CEO) and other senior staff members (Malefane, 2008; Kagarametsa-Phiri, 2008). The involvement of top and senior management ensured the commitment of other DBSA staff members. Commitment to venturing was communicated and achieved indirectly through the CEO's commitment to innovation and CE at that time, which also enhanced the importance CE within the Bank. Furthermore, the CEO was actively studying CE at the time, which further enhanced the importance of CE within the firm (Balfour, 2008; Kagarametsa-Phiri, 2008).

The next sections briefly outline the venturing strategy followed by the Bank, how it created a venturesome climate, venture selection criteria, and how the Bank proposes to manage disappointment.

5.4.1.2 The venturing strategy

The strategy driving the venturing effort stemmed directly from the DBSA innovation and CE thrust (Kagarametsa-Phiri, 2008). The strategic purposes were to instil innovation through corporate venturing, to bring about a more entrepreneurial spirit in the Bank and to overcome the inhibitive bureaucracy by identifying and eliminating the constraining behaviours that create a barrier to innovation (Kagarametsa-Phiri, 2008; Gantsho, 2006:126).

5.4.1.3 Creating a venturesome climate

A venturesome climate was created by increasing staff awareness for the need for CE, through animated e-mail messages, closed-circuit broadcast screens and inviting national and international entrepreneurs to participate in strategic conversations with the Bank (Gantsho, 2006:137). Following this initiative, innovation and CE training provided

employees with entrepreneurial knowledge and further facilitated a climate conducive for idea generation. Some of the methods to stimulate creativity were unconventional, for example delegates were asked to dance on the table, write poems, and create clay artwork (Van Vuuren *et al*, 2006). The idea behind these sessions was that creativity is a prerequisite for innovation and idea generation (Van Vuuren *et al*, 2006). The outcome of the training programme was a “surprising” 19 new venture proposals (Van Vuuren *et al*, 2006; Gantsho, 2006:134).

The ideas for ventures came from a variety of sources in both the public and private sectors for example, conversations with the Bank’s clients, co-financing partners and the general market place (Reeds, 2008). The Bank also took a more active approach in the identification of development opportunities and project origination by bringing project origination into the balanced score card and creating an innovation portal where venturing ideas can be submitted (DBSA, 2007/08; Kagarametsa-Phiri, 2008; Reeds, 2008). The innovation portal therefore also served as an idea capturing mechanism as it allowed staff members to electronically post innovative ideas, which resulted in an additional two venture ideas to bring the total number of ideas generated to 21 (Gantsho, 2006:137).

5.4.1.4 Venture evaluation criteria

Before embarking on corporate venturing, Block and MacMillan’s (1993) recommend that a predetermined set of criteria be used to determine whether a project constitute a suitable internal corporate venture. These criteria require a project to be:

- internally conducted;
- involve a activity new to the firm;
- involve significantly higher risk of failure or large losses than the firm's base business;
- had to be characterised by greater uncertainly than the base business;
- will be managed separately at some point; and
- is undertaken for the purpose of increasing sales, profits, productivity or quality.

Following Block and MacMillan’s (1993) recommendations, the bank pursued internal ventures only if the venture idea met these requirements. Other relevant criteria considered by the Bank are the strategic fit of the venture with the Bank’s strategy, the market position and sustainability of the venture, and what resources were required (Gantsho, 2006:135).

The time required for launching the venture, the novelty of the venture, what factors produced a venture, and the anticipated risks of the venture was also taken into account by the management of the DBSA (Van Vuuren *et al.*, 2006:8; Kagarametsa-Phiri, 2008; Gantsho, 2006). The next section discusses how the bank proposes to manage disappointment from ventures that have failed.

5.4.1.5 Managing disappointment

Block and MacMillan (1993) recommend that a firm should be prepared to manage disappointment, resulting from failure during the corporate venturing process. Although Block and MacMillan's (1993) recommendations regarding the management of disappointment was taken into account it is still too early to assess how disappointment will be managed at the DBSA. The reason being that the Bank, unlike most private sector institutions focuses not only on financial viability of its ventures , but also on the long-term development impact of projects (Balfour, 2008). Should a venture become distressed it will first be referred to the Bank's Workout and Recovery Unit.

The DBSA's Workout and Recovery Unit attempts to rehabilitate troubled ventures and identifies why the venture is not working (DBSA, 2006/07:26 & 36; DBSA, 2002:24; Malefane, 2008). This Unit will attempt to mitigate losses by giving troubled ventures appropriate training and technical assistance (Malefane, 2008). This process therefore limits the probability of unsuccessful ventures. To date, none of ventures that have been accepted into the internal venturing programme has failed (Kagarametsa-Phiri, 2008).

5.5 The role of senior and venture management in the corporate venturing process

The DBSA, uses the BSC as a core strategic implementation, monitoring, and reporting system as noted in section 5.2.1. The BSC approach used by the DBSA develops objectives and targets for a rolling three-year period. Following the realignment programme, the Board recommended certain changes to the BSC performance measurement system to reflect the Bank's current strategic priorities more accurately (DBSA, 2006/07:69). Accordingly, to align the BSC with the Bank's refocused strategy, the objective of creating new value propositions through innovative products and services were replaced with corporate venturing (DBSA, 2006/07:69).

To help set the corporate venturing process in place, the Bank utilised its Strategic Operations Division to help design, create, incubate, and pilot ventures (DBSA, 2006/07:37; Malefane, 2008). In support of the Strategic Operations Division, the Bank internal venturing programme furthermore makes use of its Projects Management Unit, Operations and Evaluations Unit, and the Workout and Recovery Unit, as illustrated in Figure 5.2.



Figure 5.2: Structure of internal venturing at the DBSA

Source: Based on description in DBSA 2006/07

The Project Management Unit helps to build internal and external project management capacity, the Operations and Evaluation Unit helps to evaluate, independently, internal and external development initiatives while the Workout and Recovery Unit helps the Bank to limit losses due to venture failure (DBSA, 2006/07:37; DBSA, 2003/04:35).

The internal venturing process at the DBSA commenced with idea generation through the innovation and CE training process. Once venture ideas were generated, venture managers had to submit their ideas to the DBSA's Ventures Evaluation Committee, which filtered the ideas to make sure that they were consistent with the bank's strategy, sustainable and suitable for investment. Before ventures were submitted to the committee, for selection, the ideas generated were documented and expanded upon by having the venture manager present them to the rest of the group for comment. Following this discussion, the venture ideas were formalised into venture plans and submitted. Once ventures have been selected, the Bank identified where and how it wants to locate the venture within its structure, a venture team was selected and assigned to a venture sponsor and launched. This is discussed in more detail in the following sections.

5.5.1 Idea generation

As was discussed in section 2.6.3 Tennenhouse (2004) and Block and MacMillan (1993) view internal venturing as part of a firm's exploratory activities which in essence involve an environmental scan and analysis whereby a firm actively searches for inputs from a variety of learning domains using the experimental learning and boundary spanning activities that occur. These inputs include resources, knowledge, and competence from the venture's learning domain and external environment as well as the firm's existing endowment base. An environmental scan and analysis therefore identifies opportunities that serve as a starting point for new venture ideas by means of the exposure to various inputs from the environment as well as insights about and access to endowments that are new to the firm.

Looking at the DBSA's internal venturing model, idea generation resulted from the stimulation of the creativity of the delegates that attended the innovation and CE training (Van Vuuren *et al.*, 2006; Balfour, 2008) and the Bank's experimental innovation portal (Gantsho, 2006:137). Although the intended environmental scan and analysis did not take place, idea generation mechanisms were present. Ideas flowed from the exposure the delegates had to inputs from the firm's internal and the external environments. By initiating the innovation and CE training in co-operation with the University of Pretoria (UP) (Van Vuuren *et al.*, 2006), theoretical knowledge that was sourced in from the University served as endowment input from the external environment. Furthermore, inputs in the form of the knowledge and competence that delegates had from experience, particular network and field of specialisation, helped to provide the basis for idea generation (Reeds, 2008). Before ideas can be developed into ventures, an filtering process needs to be in place to ensure that the ideas are sustainable and fit the firm's strategy.

5.5.2 Filtering process

If no filtering process is in place, the access to a variety of learning domains that the firm gains through venturing can result in the fragmentation of ideas and endowments that is not relevant to the goal of the venturing programme (Zahra *et al.*, 1999). Therefore, a filtering process has to identify the value of endowments and ideas by making sure that only relevant ideas enter the process (section 3.2). To ensure consistency with the firm's strategy and context, the filtering process should be conducted according to a set of criteria communicated to those who generate ideas to ensure that ideas are related to the objectives of the corporate venturing programme.

Examining the DBSA's model, the criteria for an idea to be considered as a corporate venture was communicated to the participants during the innovation and CE training initiative (Kagarametsa-Phiri, 2008). This ensured that ventures were consistent with the Bank's strategy and worth investing in (Van Vuuren *et al.*, 2006:8).

The Bank's filtering and appraisal process furthermore aimed to make sure the suitability and sustainability of the venture investments. Therefore, the filtering and assessment mechanism, in the form of a New Ventures Evaluation Committee used a specialist from the University of Pretoria and specialists from within the Bank to assess strategic importance, technical viability, and financial sustainability of each project (DBSA, 2006/07:26; Balfour, 2008).

To be enter the venturing programme, ventures firstly had to qualify as a *venture* according to the criteria discussed in section 5.4.1.4. In addition to these criteria, the venture also had to fulfil certain financial requirements, have low asset intensity, allow for multiple rather than once-off investments, and differentiate itself on product rather than on price (Van Vuuren *et al.*, 2006). Because ventures were also assessed on their degree of innovativeness, they were indirectly assessed for the renewal potential they held for the Bank (Kagarametsa-Phiri, 2008).

5.5.3 Developing the venture concept

The venture ideas resulting from the innovation and CE training initiative were documented and further expanded upon (Balfour, 2008). Although some of the delegates who participated in the CE training programme initially saw the venturing programme as a 'fad' and did not take the venturing process seriously (Gantsho, 2006:139), when asked to follow-up on their ideas, their commitment increased due to the top-down approach and the drive from the CEO (Balfour, 2008).

Following the initial venture concept, venture ideas were presented for discussion to the rest of the group for comment (Van Vuuren *et al.*, 2006:2). The discussions were also attended by a number of senior staff members, since peers could provide feedback in these sessions (Balfour, 2008). These sessions essentially served as an early review to determine if the venture concept falls within the Bank's mandate, to identify the issues to be examined, determine what initial resources were required, and determine what are the deadlines were (Reeds, 2008).

Following the innovation and CE, the venture concepts had to be formalised and rewritten into venture plans and submitted to the DBSA's New Venture Evaluation Committee before the financial year end in March 2006 (Van Vuuren *et al.*, 2006; Balfour, 2008; Reeds, 2008). This committee consisted out of an external expert and representatives from each of the Bank's divisions for the screening of new venture ideas, the allocation of necessary resources for the development of venture plans and to make recommendations to the Bank's Executive Committee for final approval (Gantsho, 2006). Formalising venture plans entailed a number of steps namely the description of the proposed venture, the envisaged target markets, specifying go / no go assumptions, defining when the venture would be considered to be a failure, and its strategic relationship with the DBSA. The venture plan also had to present a due diligence report of its anticipated competition, competitive advantage and an estimate of the resources required (Van Vuuren *et al.*, 2006; Reeds, 2008).

The venture plans furthermore had to include action plans and objectives with defined milestones to test the go / no go assumptions; an assessment of potential risks and how they will be managed; a sensitivity analysis to potential contingencies; financial projections: as well as a description of the venture's management and their compensation methods (Van Vuuren *et al.*, 2006). The following section briefly provides an overview of ventures that were selected to enter the ICV process.

5.5.4 Selection of ventures

After venture plans were formalised and submitted to the Venture Evaluations Committee (VEC), the following corporate ventures were accepted for piloting (Kagarametsa-Phiri, 2008; Balfour, 2008):

- Accommodation to attract and retain skilled professionals: The venture idea is to provide accommodation to professionals in rural and semi-urban areas where basic services such as water and electricity are often lacking. The accommodation will be provided in mixed rental and owned accommodation, within self-contained medium to large buildings with access to high levels of services (electricity, roads and storm water, bulk water supply, etc) and other amenities (schools, clinics, libraries and recreational facilities).
- Improvement of public sector contract management ability: This venture involves the DBSA providing technical support and a loan package to a provincial government in

the form of a Public Private Partnership as a pilot project. The DBSA plays a role in establishing the structure, providing technical oversight, developing provincial capacity and initiating an effective means of monitoring ongoing performance.

- Intelligent municipal marketing: The proposed venture aims to establish a system to compile a systematic process of bottom-up market intelligence (Data and information collected at the source) which enables the DBSA to define markets using customised criteria. The system will aim to inform the DBSA of regional market changes and trends as they occur, and therefore serve as a source of current information direct information.
- Socio-economic spatial database: The venture proposal identified a need for current socio-economic data, because the next South African census has only been scheduled for 2011 and the census information will only be available in 2014. This venture will provide the DBSA with the opportunity to build a database with current information that will support marketing and planning at the local authority government level, by means of surveys and the compilation of a comprehensive database.
- Targeted pre-approved loan facility-pilot project: This venture idea constitutes an individually focused appraisal process conducted over time to pre-approve loans to potential clients. During the process an individual development and support programme will be set in place in consultation with the client to *ensure* that the client is able to repay the loan.

Ventures had to be located within the organisational structure to make sure that they receive sufficient attention and needed endowments.

5.5.5 Locating ventures inside the organisational structure

The DBSA also identified where and how it will locate internal corporate ventures within the organisational structure of the institution. The Bank considered the six levels of embeddedness for ventures discussed in section 2.6.1.5. Ventures were located taking several factors into consideration such as the more embedded a venture, the less likely it is to attract attention; ventures are less likely to receive priority from senior management when they are more embedded; and that fund availability for embedded ventures are unpredictable. The Bank also took into account that the availability of internal resources decreased should the venture be separated from ongoing operations (Van Vuuren *et al.*, 2006). Once a decision was made on the venture location, a venture team had to be selected.

5.5.6 Selecting the venture team

A venture team is selected with a wide range of skills, for ventures that successfully have passed the screening process (Reeds, 2008). To ensure that the venture is supported and has access to the endowments it needs, the venture team was also provided with an executive sponsor (Balfour, 2008), who took on the role of bottom-up venturing champion. For example, the venture involving accommodation for professionals in rural areas was located in the Knowledge Management Division and allocated to an executive sponsor in the Operations Division because of their experience with implementing projects (Balfour, 2008).

5.5.7 Launching of ventures

Once accepted, assigned to an executive sponsor (or venture champion) and a venture team selected, ventures had to be launched by means of pilot projects. The launching of these ventures however proved to be somewhat problematic. For example, the accommodation venture was assigned to the DBSA's Operations Unit (Balfour, 2008). Even though a generic model of how to launch the venture was given to the Operations Unit, problems arose due to the venture not being a priority of the managers within the operating unit (Balfour, 2008). Since the Bank attempted to launch these ventures through its BSC performance system, venture performance criteria needed to be included in both the venture manager and operating manager's scorecard. According to the venture manager, the development of the venturing model was included into the BSC of the division in which it originated; however, the launch of the venture did not appear on the BSC of the operating unit responsible for launching it and therefore did not receive priority (Balfour, 2008; Gantsho, 2006:139).

Therefore, even though corporate venturing formed part of the Bank's BSC, what it entailed for all the involved parties was not always made clear into operational details. Since the launch of ventures was not specified on the BSC of the responsible unit, they showed reluctance to pursue ventures assigned to them (Balfour, 2008). With this background on the DBSA in mind, the subsequent section compares the theoretical framework with the ICV programme at the DBSA in terms of the propositions synthesised in Chapter 4.

5.6 Comparing the framework to the Development Bank of Southern Africa

Looking back at the basic framework of how ICV leads to renewal as presented in Figure 3.4 the next section compares the proposed theoretical framework with the venturing model used at the DBSA.

The conceptualised theoretical framework presented ICV as one of the venturing firm's explorative search activities that creates new endowments and competitive advantages needed for a firm to renew itself. Both the proposed theoretical framework and DBSA's model of ICV, viewed venturing as a process. The theoretical framework suggests that a firm should do an environmental scan and analysis to generate venture ideas. These ideas should then be filtered along with pre-existing endowments and enter the internal venturing process as inputs. During the venturing process, these inputs are combined in new ways and endowments new to the firm are acquired. This enables the venture to learn and create new endowments through the understanding between antecedents and consequences that develop and learning about the venturing process itself

Organisational learning and learning mechanisms form an important part of the theoretical framework as shown in Figure 3.4. A learning feedback mechanism is present whereby learning that has occurred forms part of the inputs into the venturing process. The endowments (knowledge and competence) that develop within the venturing process then are transferred to the firm through organisational learning where it is captured and assimilated into the firm's existing endowment stock.

The usage and acceptance of newly assimilated endowments then enables the firm to create new competitive advantages, organisational structures, aids in the re-formulation of its mission and allows it to shed old and ineffective behaviours. In Chapter 4, this framework was synthesised into propositions that indicates internal venturing leads to corporate renewal in the following four steps:

- The allocation and/or co-optimisation of selected initial endowments, which are used to acquire a set of new endowments.
- The initial and new endowments are combined in new and innovative ways within the firm's innovation and venturing context, which leads to the creation of new idiosyncratic endowments.

- These newly acquired and created endowments are then transferred to the firm through organisational learning.
- These endowments become part of the firm's endowment base, which leads to change in a firm's corporate context, and consequently to renewal.

These propositions are assessed below, based on secondary data sources, interviews with DBSA staff members and the researcher's observations.

5.6.1 Utilisation of initial endowments

The theoretical framework proposed that ICV acquire endowments from its internal and external environments as inputs into the venturing process. During venturing these initial endowments are used in explorative search activities and acts as an environmental scan and analysis for endowments. Furthermore, these endowments are applied within the venture to engage in activities such as assembling a venturing team and establishing a network of partners, which leads to endowments being acquired. Thus, the initial endowment inputs are used to acquire a set of endowments that is new to the firm.

Examining the DBSA case, initial endowments did enter the venturing process, and was used to acquire and filter (see section 6.5.3) new endowments, however, not in the way predicted by Figure 3.4. According to the proposed framework, initial endowments are allocated to the venturing process and acquired through an environmental scan and analysis process. However, the Bank case endowments were sourced by means of the innovation and CE training initiative. By bringing together delegates from different areas within the Bank and unlocking their creativity, the training programme effectively sourced internal knowledge and competence from its pre-existing endowment base (Reeds, 2008). Furthermore, by initiating the innovation and CE training in co-operation with the University of Pretoria (Van Vuuren *et al.*, 2006), theoretical knowledge was sourced from the University and served as endowment input from the external environment.

Furthermore, as part of their strategic thrusts, the DBSA utilises partnerships to mobilise inputs and resources from the external environment alongside its own endowment base to reduce the risks usually associated with investments in start-up ventures and also to deepen their developmental impact (DBSA Activities Report, 2005/06:15; DBSA, 2006/07:27). These partnerships therefore enable learning and endowment acquisition and the sharing of lessons learnt from experience (DBSA, 2006/07:32 -33). For example, the venture team for

the accommodation venture had to undertake research to determine the optimal venture structure and also from which partners' endowments could be sourced (Balfour, 2008).

Additionally, endowment acquisition also occurred during the venture planning process. Endowments were allocated in a similar way as other development projects (Malefane, 2008) that is, the Bank provides ventures with both financial and non-financial support in the form of technical assistance, capacity building support, assistance in preparing and implementing ventures, and tailored training through the DBSA Vulindlela Academy (DBSA, 2006/07:32 -33). After the initial planning of the venture, the venture team was selected from both inside and outside the Bank and brought with them their skills and competence (Malefane, 2008). To assemble ventures some of the Bank's internal resources were also used, for example, the Human Resources Department helped to select the venture teams and Corporate Finance helped with feasibility studies (Balfour, 2008). In managing the venturing programme, the Bank also leveraged from one of its core competencies, project management, which was closely linked to some of the competencies created during the innovation and CE training process (Kagarametsa-Phiri, 2008).

Therefore, the DBSA case study confirmed that the corporate venturing process enhances renewal capability because it utilises initial endowments to engage in search operations for endowments that is new to the firm.

5.6.2 Development of unique idiosyncratic endowments

As a second step towards renewal, the theoretical framework proposes that in the interaction of the venturing process with the environment, endowments are re-combined in new and innovative ways. This allows the venturing firm to gain in terms of its renewal capability, due to the understanding about the relational aspects between the endowments and the environment and learning that occur during the internal venturing process and the new idiosyncratic endowments that are created as a result.

The innovation and CE training in itself resulted in new competence being created, particularly in regards to the various aspects surrounding the creation, design, and implementation of ventures (Kagarametsa-Phiri, 2008). The training intervention also resulted in the accumulation of endowments necessary to engage in corporate venturing (Gantsho, 2006:23) Moreover, as discussed in the previous section, the Bank's internal venturing process identified and brought together a variety of endowments to implement

ventures. During the process, the understanding about the relational aspects between the endowments and the environment did occur and the learning mechanisms already in place helped to create new endowments through the exposure ventures had to different learning domains. For example, those involved in ventures, venture managers in particular, were exposed to tasks outside their field of expertise (Balfour, 2008; Reeds, 2008). This allowed them to learn and gain new competence from a field unfamiliar to them and gave those who participated in venturing the opportunity to learn and acquire unique competence that they can use in their everyday work (Reeds, 2008). For example, competence in negotiations and structuring was created that is different to the competence found in everyday project management, due to venture management having to respond to the rapid changes that occurred in the venturing and innovation environment (Kagarametsa-Phiri, 2008).

The interviews conducted during the case study therefore confirmed that ICV can bring together and combine endowments from various areas and use them to create knowledge and competence that is unique to the venture. The next section looks at how the knowledge and competence created in by the internal venturing programme was transferred to the Bank.

5.6.3 Knowledge, and competence transfer through organisational learning

As a third step, the theoretical framework proposes that the endowments acquired and created during the venturing process are diffused, codified and accepted within the firm through organisational learning to become part of the firm's endowment base. This entails that these endowments result in change in beliefs about the network of relationships aspects that forms the combined endowment base of the firm.

The internal venturing programme at the Bank did make provision for knowledge management. A specific knowledge management strategy was designed for the internal venturing programme that was aimed at maximising learning by systematically collecting information from practical experience (Gantsho, 2006:139).

The learning feedback mechanism utilised ensured that new endowments were transferred to the Bank. In the view of the DBSA operational risk manager, every project should add to the Bank's "lessons of experience" (Reeds, 2008). Therefore, the internal venturing programme at the DBSA is structured in such a way that it is supported by the Bank's

Operations and Evaluations Unit as well as its Workout and Recovery Unit (Kagarametsa-Phiri, 2008). In other words, the venturing programme can utilise the DBSA's dedicated Evaluations Unit, which is responsible for bringing lessons of experience, and knowledge back into the Bank by means of the independent evaluation of what was planned versus what actually transpired (DBSA, 2006/07:37; DBSA, 2003/04:35; Reeds, 2008).

The Evaluations Unit contributes to the Bank's knowledge base by analysing factors that affect the sustainability and the developmental impact of ventures. This Unit suggests ways to mitigate potential negative outcomes (DBSA, 2003/04:35). The Workout and Recovery Unit on the other hand is responsible for rehabilitating troubled ventures (DBSA, 2006/07:26 & 36; DBSA, 2002:24). The Workout and Recovery unit therefore also has the potential of being a valuable source of learning about ventures because failure and the management of disappointment will inevitably form part of lessons learnt (Van Vuuren *et al.*, 2006:7).

According to one of the respondents, the transfer of endowments may also occur in a similar fashion to the way skills and competencies are transferred to the Bank from teams working on other development projects (Malefane, 2008). That is, by identifying where the skills that resulted because of the internal venturing can be deployed. In addition, by presenting venture ideas to committees and the divisions where they are supposed to be implemented, knowledge that was created was transferred to the Bank (Balfour, 2008). For example, during the venturing process several lessons of experience were gained from the venture involving public sector contract management in terms of the structuring of Public Private Partnerships (PPPs) and were transferred to the firm by means of presentations to committees within the firm (Kagarametsa-Phiri, 2008).

Although the learning and feedback mechanism were in place, and transference of endowments from the venturing programme to the DBSA did occur; the extent to which it happened is difficult to confirm with certainty. The reason being that the learning mechanisms that were in place are designed to effectively transfer endowments at a later stage in the venturing process, which ventures have not achieved at the time the current study was conducted. Furthermore, the endowments that were transferred to the firm by means of the presentations were either informal or limited (Balfour, 2008), which makes it difficult to assess if learning did occur. Therefore, the case study only supports the proposition in as much as the organisational learning that did occur was limited.

5.6.4 The renewal potential of corporate venturing at the Development Bank of Southern Africa

The corporate renewal process involves changes in a firm's competitive approach, and the transformation of its corporate context through the acquisition, leveraging and creation of new endowments that allow the firm to pursue new market opportunities, products or customers. The theoretical framework therefore proposes that the knowledge and competence that become part of the firm's endowment base is applied and leveraged, leading to renewal.

Within the DBSA, some of the endowments created and lessons learnt from venturing were applied within the Bank's corporate context. For example, venturing taught the Bank the importance of assessing the endowment needs of projects and that assigning the needed skills and competence is as important as transferring these skills and competence to the Bank (Malefane, 2008). In the Evaluations Unit, the endowments that were transferred to the Bank were used to improve the understanding of problems in other projects and areas of the Bank (Malefane, 2008). For example, the Bank has learnt that the ring fencing of loan payments, that is ensuring that loan repayments are made before ventures has access to money from clients, is critical for projects where financial skills are lacking and that when projects are assessed it is essential to work in cooperation with the venture team (Balfour, 2008).

However, how ICV and ventures affected organisational renewal is somewhat of a "grey" area (Kagarametsa-Phiri, 2008). Internal venturing contributed to renewal elements within the Strategic Operations Division and resulted in a more innovative culture within the Division, which has had some spin-off effects within the firm's corporate culture as a whole (Kagarametsa-Phiri, 2008; Reeds, 2008). However, it might be too early to assess the full impact of the venturing process, partly because the endowments created from the venturing has not yet been effectively transferred to the Bank. Furthermore, there is little evidence that the cultural change that did occur within the Division responsible for venturing, sufficiently diffused into the rest of the Bank (Reeds, 2008). The head of venturing however was of the opinion that internal venturing has in some ways contributed towards, and will in future contribute to the Bank's continuous renewal efforts (Kagarametsa-Phiri, 2008).

In addition, the Bank changed leadership at the same time as the venturing programme was implemented, which clouds the assessment of the impact ICV has on renewal

(Kagarametsa-Phiri, 2008). Although the renewal process was reinforced and accelerated, how much of the change can be contribute to internal venturing and how much to the change in CEO is unclear (Reeds, 2008).

Consequently, even if transformation did occur in the Bank's corporate context it can not be attributed to the ICV process alone. Therefore, the proposition that the usage and leveraging of the endowments transferred to the firm leads to corporate renewal remains unconfirmed.

5.7 Change of leadership at the Development Bank of Southern Africa

The case of ICV at the DBSA also strongly showed the importance of senior management support. During 2006, the Bank went through leadership chane. Because the venturing "godparent" was the CEO of the firm and strongly advocated the internal venturing programme, the change in leadership is s serious threat to the internal venturing programme. The support for the venturing programme came mainly from the previous CEO, therefore due to the change in leadership, the venturing programme lost critical support for the venturing process (section 2.6.4). Furthermore, despite the fact that corporate venturing was still on the Bank's BSC at the time of the study, there is a great deal of uncertainty among staff members whether the new CEO will support the Bank's venturing efforts.

This was apparent in all the interviews conducted during the study. For example, one of the respondents quoted that: *"The first thing I learnt is that without leadership direction and leadership involvement, [The corporate venturing programme] would have just gone to nothing. And also because our chief executive then was doing his PhD in corporate entrepreneurship, I think that facilitated the rolling of it. Unfortunately he has left and we are struggling to hold on"* (Kagarametsa-Phiri, 2008)

Although the change in leadership has occurred, the interviews revealed that innovation and entrepreneurship was still important to the new CEO and took a central role inside the Bank (Malefane, 2008; Kagarametsa-Phiri, 2008). Therefore, the DBSA staff is still expected to innovate, however not necessarily through venturing (Balfour, 2008). The head of internal corporate venturing did however still feel confident that venturing is embedded in the new CEO's view of innovation despite the current uncertainty that exists regarding support for the venturing programme (Kagarametsa-Phiri, 2008).

5.8 Summary

This chapter focused on the second phase of the research by providing an overview of the case study of Internal Corporate Venturing (ICV) at the Development Bank of Southern Africa (DBSA). Commencing with a description of the DBSA in general, its vision and strategy, the Bank's objectives, as well as its operating environment, the chapter described why the DBSA is seen as an exemplary case of internal venturing instigated for continuous corporate renewal.

To provide the background to ICV at the Bank, the chapter also illustrates the role of senior management in the corporate venturing programme and illustrates the role of senior management and venture management in the venturing process. Following the description of the ICV case at the DBSA, the results of the case study was presented by comparing the internal venturing effort at the Bank to the theoretical framework in terms of the four propositions synthesised in Chapter 4.

The case study at the DBSA confirmed the first two propositions that the utilisation of initial endowments to acquire new endowments and the combination of new and old endowments to develop unique idiosyncratic endowments were applicable in this case. The third proposition, whereby the new knowable and competence were transferred to the firm through organisational learning, could however only be partly confirmed. The final proposition remained unconfirmed, due to the uncertainty that exists as to what effect internal venturing had on renewal because of a change in the Bank's leadership. In addition the case study also showed that as a result of the change in leadership that occurred, and the "godparent" leaving, staff are concerned about the support for the venturing programme which poses a serious threat for ICV at the DBSA.

The findings outlined in this chapter is summarised in Chapter 6, which concludes the study by providing a overview of the purpose of the study, deals with the theoretical framework and specific findings of the study as well as the findings pertaining from the case study. Based on these findings recommendations are made, the limitations of the study is briefly discussed and the research is concluded with a summary.

Chapter 6: Summary, findings and recommendations

6.1 Introduction

Innovation is instrumental in gaining competitive advantage (Drucker, 1985; Pittaway, 2001). However, large firms often face a renewal dilemma. Despite the fact that many firms recognise the need for innovation and renewal, they find it challenging to implement innovation. Thus, the need for renewal is complicated by finding a suitable business development tool to bring about the renewal needed. The problem is further aggravated by a fundamental managerial conflict of exploration and exploitation. This conflict causes a reluctance to engage in exploration activities (searching for new resources, knowledge, and competence), due to the operational focus of exploiting current resources, knowledge, and competence. To overcome the renewal dilemma, this study investigated the relationship and linkages between Internal Corporate Venturing (ICV) and corporate renewal to determine how Internal Corporate Venturing (ICV) can be used as a tool to initiate corporate renewal and overcome the renewal dilemma. This was achieved by proposing a theoretical framework grounded in the corporate venturing literature and assessing it by means of a case study involving the internal venturing programme at the Development Bank of Southern Africa (DBSA).

To contribute to the understanding of internal corporate venturing and the relationship it has with renewal, the proposed theoretical framework conceptualised internal venturing as a process that has access to resources, knowledge and competence (collectively referred to as endowments) of the venturing firm. It placed internal venturing in an ideal position to receive inputs from the firm (the firm's pre-existing endowments) and combining them with inputs from the environment. In addition, the proposed framework showed that internal venturing creates an understanding of the relational aspects between endowments and the environment through the interaction of ventures with their learning domain. This interaction occurs simultaneously with the broadening a firm's learning domains through creating and capturing of new knowledge and competence from the individual venture's operating environments. The theoretical framework proposed that these new resources, knowledge

and competence as well as new combinations of these endowments should be transferred and diffused throughout the firm and assimilated with existing knowledge and competence.

Therefore, the theoretical framework proposed that ICV provides the firm with a strategic process that effectively balances exploration and exploitation activities. Additionally, it provided the linking mechanisms between the firm's corporate contexts and environment, therefore, allowing the firm to overcome the managerial conflict between exploiting existing endowments and searching for (or exploring) new endowments and hence a means to overcome the renewal dilemma.

Thereafter, to determine if ICV can act as a tool to instigate renewal in practice, the proposed theoretical framework was compared to a case study to assess whether the outcomes as proposed by the theoretical framework actually transpired. The next section summarises the research methodology used in the study.

6.2 Research methodology

This qualitative study, which made use of a mixed method methodology, was conducted into two phases. The first phase used Grounded Theory methodology to investigate how an internal corporate venturing programme can be used as a tool to instigate corporate renewal. Conceptual-ideas grounded in the data were used to gradually develop the proposed theoretical framework (Glaser & Strauss, 1967). This research method was applied by reviewing the literature on corporate venturing and its related fields as textual data, which was simultaneously analysed, compared and categorised to provide structure to the study without compromising the flexibility to modify the research question as the theoretical framework emerged.

In the second phase, replication logic was used to assess the theoretical framework by means of an exemplary exploratory case study with the aim of determining whether the propositions of the theoretical framework transpired in practice. By using a case study design, the proposed relationships represented by the theoretical framework's propositions were assessed by comparing it to the ICV programme at the Development Bank of Southern Africa (DBSA) to determine if the outcomes in the case are similar to those predicted by the theoretical framework.

By combining these two methods of investigation, some of the criticisms against using Grounded Theory and explorative case studies were avoided (Yin, 1993). For example

Grounded Theory's inability to assess theory was compensated for by making use of the case study methodology and case studies lack of generalisability of findings was compensated for by grounding the proposed framework in theory. (Yin, 1993; Babbie & Mouton, 2001). Furthermore, the critique that case studies often lack theoretical relevance, (Babbie & Mouton, 2001) was overcome by comparing, the case study with the theoretical framework grounded in the previous research. The conceptualised theoretical framework, in addition, created a framework for the research design, because the synthesised propositions helped guide and facilitate the case study (Yin, 1993). In essence, this study benefits from Grounded Theory's ability to develop theory grounded in qualitative data and from a case study research design's ability to assess the theory.

The mixed-method methodology followed a systematic approach by firstly defining the research question in such a way that it could be modified as the research progressed (Glaser & Strauss, 1967). Accordingly, as the literature review progressed and became more specific and focused, the research question was adapted to the following:

How can an internal corporate venturing programme be used as a tool to instigate sustained corporate renewal?

Once the research question was formulated, the literature review became focused on the relationship between ICV and corporate renewal, which led to the emergence of a theoretical framework of how ICV can be used as a tool to instigate renewal.

The theoretical framework was developed by using multiple data sources from the corporate venturing literature and its related fields. Data analysis and data organisation took place simultaneously using the constant comparison technique that allowed constructs, categories and their inter-relationships to emerge. The theoretical framework was then synthesised into a set of propositions, which indicated that internal venturing leads to corporate renewal in four steps:

1. The allocation and/or co-optimisation of selected initial endowments from the firm's corporate context to the venturing process, which are used to acquire a set of endowments that is new to the firm.
2. The initial and new endowments are combined in new and innovative ways within the firm's innovation and venturing context, which leads to the creation of new idiosyncratic endowments.

3. These newly acquired and created endowments (knowledge and competence in particular) are then transferred to the firm using organisational learning.
4. These endowments become part of the firm's endowment base, which could lead to a change in a firm's corporate context, and consequently to renewal.

To assess the theoretical framework in practice these propositions were operationalised with the help of an international expert in the field of corporate venturing and renewal, whereafter an interview guide was developed (see Appendix B) to guide data collection during the case study interviews.

At this stage of the research, the unit of analysis was formally defined as the intervention of an ICV programme serving as means to instigate corporate renewal. This embedded the steps of the theoretical framework in the case study. To assess the theoretical framework the DBSA was chosen as an exemplary case by using theoretical sampling. That is, the case was selected by defining the information needed (in the form of propositions) and selecting a case study.

The data for the case study case were collected from secondary data sources about the environment in which the DBSA operates; and more specific secondary firm documents such as internal research articles and reports, press releases, corporate web pages, and annual reports. However, the main data source for the case came from interviews conducted with four key individuals involved in the ICV programme. These interviews were conducted on a selective basis, due to the need to collect specific data using the convergent interviewing technique as described by Dick (1998). The interviews were audiotaped and transcribed, and data were ordered and analysed simultaneously in accordance with a replication question grounded in the information required (Strauss & Corbin, 1990).

In summary, in the first phase as per Figure 4.1, the research question and propositions were developed in the form of a theoretical framework (or first case) using the Grounded Theory methodology. The unit of analysis was then defined based on the research question that emerged. The theoretical framework was synthesised into a set of propositions. In the second phase, the study borrowed from the replication case study methodology to gather data and assess the proposed theoretical framework by comparing outcomes of the DBSA's experience (case study) with the propositions of the theoretical framework.

6.3 Theoretical findings

From the theory on corporate venturing and its related fields it was found that, a firm's corporate venturing programme constitutes a dynamic process consisting of entrepreneurial activities that take place within the innovation and venturing context. When viewed from the perspective of organisational learning, corporate venturing results in the acquisition, leveraging, re-combination, and creation of endowments. Furthermore, ICV was found to be a suitable business development tool particularly for firms who face an uncertain or dynamic market environment and who want to exploit their endowment base in an innovative way. The reason being that corporate venturing offers advantages in the access it provides to endowments of the firm and its network. Additionally corporate venturing could help to bring about a more entrepreneurial culture in the firm's corporate context.

The literature review made a clear distinction between the corporate venturing programme and the venturing process, noting that the responsibility for the venturing programme should be vested with senior management, while the responsibility for the venturing process within a specific venture should be vested mostly with the venture manager or management team.

6.3.1 The internal corporate venturing programme

The literature review outlined the issues and requirements that need to be addressed before a firm engages in ICV and recommends that these be addressed by setting an operating charter. In deciding which venturing model to use, it was found that the firm needs to decide how much learning needs to take place from venturing efforts and that venturing requires an effective internal communication system and networking capabilities. In addition, it was found that the venturing programme should anticipate the adjustment process, and there should be a clear understanding of what constitutes venture failure.

The literature review of the endowment allocation process found that the process is influenced by the internal political processes and culture within the firm and is linked to the fundamental managerial conflict between exploiting endowments and searching for (exploring) new endowments. The literature review also established that a milestone-based process, falling outside normal budgeting procedures of the firm and administered by a resource allocation board appears to be the most effective way of allocating endowments to an internal venturing programme focused on renewal. Furthermore, it was determined that

when allocating funds to internal venturing, has the potential of facilitating corporate renewal when a firm has long-term payback expectations.

Interestingly, it was also established that the ICV programme and the venturing process needed to be championed and protected by a “godparent” (top-down approach). This function should be performed at an executive level and essentially involves the following:

- managing and coping with the resistance of the firm regarding the acquisition and exploration of endowments through venturing;
- protecting ventures and the venturing programme; and
- ensuring coherence between the corporate, innovations and venturing contexts.

Corporate venturing scholars recommend that the venturing programme’s performance should be monitored in such a way that it reflects the strategic there-or. The literature suggested using measurements that consider the programme’s venture portfolio. These measurements should assess the demand created for the firm’s products and services. The literature suggested using the enhancement of the overall firm reputation that resulted due to ICV and to what extent ICV enhanced the importance of new business development within the firm. Furthermore, it appears that the renewal capability of the programme can be assessed in terms of its emerging ability to find and exploit new endowments.

It was also found when incongruence does develop between the firm’s venturing, innovation, and corporate context; the venturing programme needs to adjust its strategy. As part of the ICV programme, the firm should also make sure that it learns from the ICV by learning about new markets, technologies, and business models and from disappointments as well as leveraging what has been learnt. The internal corporate venturing process, as part of the overall ICV programme was also examined.

6.3.2 The internal corporate venturing process

The venturing process was analysed in-depth and revolved around the venture and the steps that have to be taken to develop and implement a venture. The literature showed ICV to be one of the firm’s exploratory activities, which involve the identification of opportunities through idea generation, analysis, and filtering of these opportunities and their subsequent development as internal ventures. It was established that the ICV needs a mechanism to transform these opportunities into venture ideas that relate to the programme’s objectives while simultaneously increasing environmental variation. Additionally the literature review

found that in the analysing and filtering of ideas, criteria to ensure that ideas relate to the corporate context should be used. The literature review also established that the novelty, and complexity that a venture idea has in relation to the firm's markets, technology and business model can potentially provide an indication of the renewal potential that ventures hold.

Moreover, ICV involves the acquisition, recombination, and creation of endowments through the venturing process. This process is driven largely by the bottom-up venture champion. The venture champion is a resource with the capacity to acquire and leverage endowments, by for example the influence it has in selecting a venture team. The bottom-up champion should also monitored and adapted the venturing process to make sure that learning occurs, and ventures performance is evaluate both in financial and strategic terms.

6.3.3 The renewal dilemma and the relationship to internal corporate venturing

The fundamental managerial conflict between exploring new endowments and focusing on a firm's existing endowments was often found to be the underlying reason why many firms struggle to instigate innovation and renewal. However, it was concluded that for renewal to take place exploration and exploitation should be balanced between creating and utilising new endowments and exploiting the firm's existing endowments. Balance can be achieved by transferring existing endowments from exploitation to exploration activities, and transferring the endowments created during exploration to exploitation activities. In practice however, firms find this process very challenging.

To instigate renewal, a firm should realign its corporate context with its external environment through strategic processes. Corporate renewal will only take place if there are sufficient bi-directional linking processes between these strategic processes and the corporate context. These linking processes include the monitoring of learning about and exploration of markets, technologies, and business models as well as the sharing, creation and transfer of endowments that takes place because of these processes.

In summary, the literature review found that the relationship between renewal and ICV offers the potential to:

- Balance the necessary exploration and exploitation activities through the access it has to the firm's endowment base
- Make use of the strategic processes and learning mechanisms necessary to necessary for sustained corporate renewal.

The next section summarises the specific findings about the relationship between corporate renewal and ICV proposed in the theoretical framework.

6.4 The theoretical framework

The proposed theoretical framework, as presented in Figure 3.4 highlighted how internal corporate venturing can acquire and create endowments, how these endowments can be transferred to the firm. The theoretical framework also illustrated how ICV can manage endowments by creating a balance between exploitation and exploration and therefore how it can potentially contribute to renewal.

By conceptualising internal venturing as a strategic process with a certain degree of access to the endowment base of the firm, internal venturing is associated to renewal, because renewal can only be created from within the firm (section 3.2). ICV is an ideal business development tool to exploit some of the firm's endowments from its pre-existing endowment base.

Corporate renewal also requires that new endowments be acquired or created from a set of learning domains or environments. A variety of learning domains is necessary, because it increases the strategic options available to the firm. In other words, these endowments should allow the firm to pursue new markets, products, technologies, business models or develop an entrepreneurial culture (section 3.2). By definition, a new venture has to include new markets, products, or technologies (section 2.2). In addition, starting a venture entails building a new business model and culture, therefore, by engaging in internal venturing, the firm is searching for endowments through the creation of a collection of new products, technologies, business models, using its portfolio of ventures. Furthermore, internal venturing helps to acquire, combine, and create the endowments that a firm needs, to renew itself using the expansion of the firm's search routines that idea generation creates (section 2.6.3.1).

To overcome the renewal dilemma the firm needs to apply existing endowments (exploitation) and maximise the opportunities to search for and create new endowments (exploration). However, in the process of obtaining and creating endowments for corporate renewal, a firm could become trapped within its own competence, a phenomenon known as path dependency (Keil, 2004). To avoid path dependency, the firm should engage in experimental learning that increases the variety of its learning domains (section 3.3). Therefore, ICV relates to renewal because it allows the firm the opportunity to exploit its endowments base while simultaneously exploring new endowments from a variety of different learning domains.

For the endowments created during the internal venturing process to contribute to the firm's renewal efforts effectively, the firm requires relative absorptive capacity (Zahra, Nielsen, & Bogner, 1999). In other words, it needs to be able to identify the endowments of value and assimilate it with the existing firm. To assimilate the endowments the firm needs to make sure that there are processes in place that relate the source of the new endowments (the venturing context) and the firm's corporate context (Kola-Nyström, 2008). It was found that the selection mechanisms during the ICV process ensure that only relevant ventures are selected. Furthermore, ICV relates the venturing context and corporate context through the learning feedback mechanisms that facilitate the transfer and absorption of endowments to the firm.

Internal venturing was also presented as having the potential to match environmental dynamics with the internal variety and dynamics venturing creates (Thornhill & Amit, 2000). That is, ICV can help the firm make sure internal variety and flexibility. This is done by encouraging the firm to proactively attempt to influence its environment. Furthermore, it was found that the effectiveness of ICV as a way to instigate renewal depends on the effective use of knowledge management, relative absorptive capacity and the balance that is created between investing in related and un-related ventures. The theoretical framework was subsequently assessed, using the ICV programme at the DBSA as a case.

6.5 Case study at the Development Bank of Southern Africa

This section presents the findings from the case study conducted at the Development Bank of Southern Africa (DBSA). These findings are discussed in five subsections. The role that innovation, CE, and renewal played at the DBSA is presented first followed by the findings surrounding the Bank as learning organisation. The findings concerning the internal

corporate venturing programme and the venturing process at the Bank is then discussed. Before moving on the recommendations, this section concludes by portraying the findings surrounding the renewal capabilities of ICV at the DBSA.

6.5.1 Innovation, corporate entrepreneurship, and renewal

The case study found that innovation and entrepreneurship takes a central role within the Bank's corporate context. As one of the Bank's strategic thrusts, it forms the basis of the Bank's innovation context. The strategic objective within the innovation context is related to renewal, because the objectives aim is to instil a more entrepreneurial and innovative culture within the Bank. The strategy also aims to overcome the inhibitive bureaucracy by identifying and eliminating the hindering behaviours that create barriers to innovation (Kagarametsa-Phiri, 2008). In other words, a transformation of the Bank's corporate context, and hence corporate renewal (Guth & Ginsberg, 1990), is the essence of the DBSA's innovation and entrepreneurship strategy.

This type of strategy is suitable, since the Bank operates in a dynamic environment, due to turbulent social, political, and economic environment within Southern Africa. This implies that the Bank's operating environment is constantly changing and challenging them to find better ways of ensuring that their corporate context remains aligned with that of the dynamic environment (DBSA, 2007/08). It was found that the Bank realised that, if it wants to make the best use of the endowments available to it, the DBSA has to align its strategy, structure, and culture to bring about a paradigm shift that emphasises continuous innovation and corporate renewal (DBSA, 2006/07:18; Reeds, 2008). Closely linked to renewal is the DBSA's ability to function as a learning organisation.

6.5.2 The Development Bank of Southern Africa as a learning organisation

The case study found that the effective integration, sharing, utilisation, leveraging and mobilisation of endowments is an integral part of the Bank's mandate and is encapsulated in its corporate strategic thrusts, through its emphasis on knowledge (endowment) management. In fact, the DBSA views the application of knowledge towards customer-oriented innovation and the promotion of organisational efficiency and effectiveness as critical organisational success factors (South African LED Network, 2007). Therefore, it was

found that the Bank acts as a learning organisation, which could facilitate the transfer of endowments (DBSA, 2006/07:49) needed to relate ICV to renewal.

6.5.3 Internal corporate venturing at the Development Bank of Southern Africa

In general, it was found that ICV at the DBSA was similar to the theoretical process discussed in Chapter 2. In short, internal venturing was initiated at the Bank by means of an innovation and entrepreneurship initiative started by the DBSA, which formed part of a re-alignment and renewal programme. Therefore, ICV influenced the Bank's attempt at a paradigm shift that emphasised continuous innovation and renewal. The Bank followed a process of internal venturing which ensured that the prerequisites for internal venturing (refer to section 2.6.1) were met. Regarding the prerequisites for ICV, it was found that:

- Senior management established the appropriateness of internal venturing, by identifying the potential of ICV to bring about a more innovative and entrepreneurial culture within the firm.
- The innovation and CE training initiative ensured that an appropriate entrepreneurial environment was formed and that idea generation was encouraged.
- The Bank's innovation and entrepreneurship thrust formed the basis of its innovation context. Furthermore, the strategy driving the venturing effort was derived directly from the innovation and entrepreneurship thrust, which ensured that there was coherence or strategic fit between the corporate, innovation, and venturing contexts.

Furthermore, it was found that the Bank distinguished between the responsibility for the venturing programme and the responsibility for the venturing process. During the training process, the distinction between the roles of senior management and the venture manager was communicated (Van Vuuren *et al.*, 2006). Venture management's responsibility was said to be that of championing and managing the venture and that they should hone their survival skills and learn how to manage the challenges of corporate politics (Van Vuuren *et al.*, 2006). Senior management was responsible for the venturing process. As part of their responsibilities, senior management systematically gathered and analysed information to learn how to manage ICV more effectively. It was found that this analysis and learning process also related internal venturing to the DBSA's corporate context.

ICV at the Bank was also structured in such a way that it made use of various divisions and departments. The responsibility for the programme was overseen by the Strategic Operations Unit. Therefore, it was established that the internal venturing programme, was structured to fall somewhere between direct integration teams and an independent business unit, discussed in section 2.6.1.5), which implies that the venturing programme leaned more towards the leveraging of competence than to the learning of new competence. Moreover, it was determined that the driving force for the ICV programme came directly from the CEO, which ensured a high level of commitment from staff members. This also ensured ICV took on an important role in the Bank, as it was included in the Bank's BSC performance management system. Once the Bank ensured it had the prerequisites in place, assigned responsibility for the venturing programme and structured ICV, the process of internal corporate venturing commenced.

6.5.4 The process of internal corporate venturing

During the process of ICV, it was found that the innovation and CE training initiative formed the starting point for ICV. Specifically, the innovation and CE training initiative made sure an environment conducive to idea generation by encouraging the delegates to take part in activities to “unlock” their creativity. Furthermore, the venture ideas that resulted from the innovation and CE training came from a variety of sources.

The idea generation process differed from the theoretical framework as far as the intended environmental scan and analysis was concerned. The venturing process at the DBSA did however result in adequate ideas. The stimulation of creativity ensured that ideas were generated from the exposure that employees had to their different areas of expertise. However, the exposure delegates had to environments other than their own area of expertise were limited. Bringing together delegates from various divisions and areas of the Bank, and allowing them to interact during the training process did collectively provide some exposure to a variety of environments. Furthermore, because the training was conducted utilising an outside provider, endowments were sourced from the external environment and served as inputs into the venturing process. Therefore, although an explicit environmental scan and analysis was not conducted, it was found that the basis for idea generation was still established by bringing together inputs from both the internal and external environment, which was utilised by unlocking creative thinking to stimulate idea generation.

Furthermore, the DBSA filtered venture ideas by utilising a set of selection criteria which were defined beforehand and communicated to the delegates who proposed ideas during the training process. The criteria aimed to keep ideas consistent with the Bank's strategy. The filtering process also assessed how novel and innovative ideas were, thereby indirectly assessing them for their potential to instigate renewal.

In planning the venture, top management commitment was guaranteed, because the CEO was acting as the venturing champion or "godparent". A learning mechanism was also established very early in the venturing process by means of discussions that took place with others who attended the training and a number of senior staff members. These venture ideas were documented, which provided for the opportunity to document what was learnt.

Once venture plans were completed and accepted, the venture was assigned a sponsor to act as bottom-up venture champion and a venture team was selected. As discussed in section 2.6.3.3, by assigning a sponsor to the venture, a mechanism was created whereby the learning that took place in the venture could be diffused through the Bank, and endowments needed for the venture could be obtained.

By making use of the Bank's Human Resource Department to select the venture team, internal venturing utilised initial endowment to acquire endowments (in the form of the venture team consisting of people with a wide range of specialities) from the firm's internal and external environment.

Although the Bank recognised the theoretical importance of managing disappointment, it is still too early to assess how disappointment will be managed at the DBSA. The reason being that to date no ventures failed, partly due to the fact that the Bank utilises the systems and expertise it already has in place to reduce the probability of unsuccessful ventures.

The DBSA case showed that the way they implemented the BSC created problems in launching ventures. Although corporate venturing did appear on the Bank's BSC, assessment was based on how many ideas were produced, however no mention was made concerning the launching of ventures (Balfour, 2008; Malefane, 2008). In other words, those responsible for implementation did not pay sufficient attention to the ventures because launching ventures did not form part of their divisional BSC assessment (Gantsho, 2006:139). Despite these problems, the potential of ICV to renew the DBSA could be assessed.

6.5.5 The renewal capability of internal corporate venturing

Findings regarding the renewal capability of ICV at the DBSA revolve around the propositions synthesised in the theoretical framework.

The case study confirmed that endowments were utilised to acquire new endowments on a selective basis as postulated in the first proposition. It was found that the venturing process was structured in such a manner that it spanned across several of the Bank's divisions and units. This allowed access to the Bank's competencies enabling the internal venturing process to utilise the Bank's endowments, such as human resource competence, to acquire new endowments through the selection of the venture teams. Furthermore, innovation and CE training utilised one of the DBSA's external knowledge partners, which provided access to theoretical knowledge. As mentioned in the section 6.5.4, the Bank did filter the endowments entering the internal venturing programme to make sure it fitted with its strategic context. The first step of utilising initial endowments to acquire both pre-existing internal endowments and new external endowments did therefore occur, although in a different manner than predicted by the theoretical framework.

The second proposition, combining new and old endowments to develop unique idiosyncratic endowments, was also confirmed. The innovation and CE training resulted in new competence surrounding ICV. Additionally, it was found that a variety of endowments was indeed brought together and combined to create competence, particularly competence regarding project management, negotiations and structuring.

The transfer of knowledge and competence to the firm through organisational learning did occur. It was found that the Bank did have the processes and systems as well as the linking processes and learning feedback mechanisms needed to transfer knowledge in place. This ensured that some endowments were transferred to the Bank, however, the extent to which the transfer of endowments and organisational learning occurred was difficult to assess, since it is too early in the venturing programme to make this determination (Reeds, 2008; Kagarametsa-Phiri, 2008). Although learning did occur and new endowments (particularly in the form of knowledge and competence) were created, the problems associated with the implementation of ventures in terms of the BSC furthermore limited the ability of ventures to utilise and combine endowments effectively. Therefore, the third proposition could only be confirmed in the sense that limited knowledge and competence transfer did occur.

The fourth proposition, corporate renewal resulting from ICV, could not be confirmed. Although it was found that some of the endowments and lessons learnt were applied within the Bank's corporate context, and that these lessons learnt resulted in some changes in the Bank's corporate context (Kagarametsa-Phiri, 2008) these changes could not be ascribed to internal venturing with certainty. The internal venturing programme did achieve its goal of instigating a cultural change within the Strategic Operations Division (Reeds, 2008), however it is too early to assess the full impact internal venturing has on the corporate context. Furthermore, the impact on the corporate context is ambiguous due to the uncertainty of how much of this change can be attributed to the internal venturing programme and the extent to which the corporate context was influenced by the change in leadership. It was found that the change in leadership threatened the existence of the ICV programme. With the CEO leaving the Bank, the ICV programme lost its "godparent", an essential element in internal venturing. With its "godparent" gone, staff members felt they lacked management support and therefore were uncertain about the future of internal venturing in the Bank. The case study did however reveal that the new CEO was supportive of innovation and that internal venturing still holds a place within the DBSA.

The next section outlines the theoretical and managerial value of the study and its findings by making recommendations pertaining to ICV.

6.6 Recommendations

At the conclusion of this study, several recommendations can be made concerning ICV as a corporate renewal tool: recommendations for firms who want to initiate venturing; recommendations concerning the ICV programme of the DBSA; and recommendations for future research.

6.6.1 Internal corporate venturing as a renewal tool

- For any firm interested in business development, ICV should be considered.
- Where a need for renewal exists, firms operating in a dynamic environments should consider using ICV as a renewal tool.
- It is recommended that, firms who want to initiate ICV or already have a ICV programmes in place recognise the importance of creating a supportive organisational climate for ICV.

- Firms should make sure that the venturing programme uses exploitation and exploration as complementary activities and that there is sufficient learning processes.
- Firms should also make a clear distinction between the management of the venturing programme and the venturing process, as well as the roles which senior management and the venture managers play with regards to ICV.

The following section makes recommendations specifically regarding ICV at the DBSA.

6.6.2 Recommendations made regarding the case study:

In addition to acknowledging, the recommendations offered regarding internal venturing as a renewal tool, it is advised that the DBSA consider the following recommendations concerning their ICV programme:

- The innovation and CE training initiative formed the basis for ICV and proved to be a valuable idea generation mechanism and competence building activity. Therefore, it is recommended that innovation and CE training should be provided on a continuous basis. The subsequent training workshops, should include “lessons of experience” from actual ventures and should be expanded upon to include other processes that can contribute to renewal such as research and development, external venturing, as well as involving more of the Bank’s partners.
- Since renewal requires a balance between leveraging competence and learning new competence, it is recommended that the Bank reconsider the organisational structure of the ICV programme and structure it to facilitate the learning of new competence. It is recommended that ICV should be structured as a dedicated business unit within the Strategic Operations Division.
- Although the innovation and CE training did provide an idea generation mechanism, the exposure idea generators had to a variety of environments was limited. It is therefore recommended that the Bank engage in broader search activities. Alternatives are to expand the innovation portal, by allowing the Bank’s clients and other development institutions like the Industrial Development Corporation (IDC) to submit ideas and engage in dialogue with the DBSA.
- The DBSA should expand upon the learning that has occurred, by communicating what has been learnt more effectively to all participants in the internal venturing programme as well as to other areas in the Bank. It is recommended that the

progress of ventures and innovation within the bank to communicated to staff on a continuous basis.

- With the change in leadership, the internal venturing programme is currently without a “godparent” and hence the support of the venturing programme is under threat. Therefore, the new CEO should communicate his position and involvement, regarding the programme, to the DBSA staff and appoint a new executive level “godparent” to champion internal venturing.
- It is recommended that current performance measurements in the BSC be re-considered. In this regard, the BSC should be adjusted when considering corporate venturing to include performance measurements such as the number of ideas generated, how many have been successfully implemented, and what learning has taken place during the venturing process.

6.6.3 Recommendations for future research

Despite the theoretical contributions and exploratory case findings offered, opportunities for further research exist.

- Further studies should expand on the importance and effects of training during the ICV process, by comparing multiple case studies.
- Since internal corporate venturing impacts on a firm’s corporate context over the long-term, a longitudinal study could be conducted to monitor the progress of ICV at the DBSA, to determine if the endowments transferred to the firm are sufficient to lead to renewal.
- Because ICV does not act in isolation to renew the firm, it is recommended that future studies expand upon the theoretical framework developed in this thesis to include other business development tools such as research and development and external corporate venturing and investigate how they relate to internal venturing and corporate renewal.

Despite these recommendations, the findings of the study should be interpreted with caution, since limitations exist. Due to time and resource constraints, it was not possible to contact all the individuals involved in corporate venturing. Although key individuals were selected and findings presented, the findings can be expanded upon and refined by means of a further research. In other words, the saturation needed to validate the theory in practice has not been fully reached. Furthermore, case study research limits the generalisability of

the results (Mouton, 1996; Babbie & Mouton, 2001). Although attempts were made to overcome this limitation, by comparing the case to the framework grounded in literature, care should still be taken when generalising these findings to other cases of ICV. Moreover it is often difficult to represent a complex case in a simple manner in case study research (Yin, 1999). Although efforts have been made to ensure that the study provided an accurate representation of ICV programme at the DBSA by using multiple data sources, it should be recognised that the representation could more accurate if more respondents involved with ICV at the DBSA were interviewed.

6.7 Conclusion of study

In conclusion, this study provided some evidence that Internal Corporate Venturing (ICV) can be used to overcome the renewal dilemma. By utilising Grounded Theory research methodology theoretical linkages were established between internal corporate venturing and corporate renewal.

The proposed theoretical framework postulated that, under the appropriate contextual conditions, ICV can act as a process that utilises and exploits the firm's existing endowment base while simultaneously acting as a boundary spanning, explorative activity that involves searching for, acquiring, analysing, and filtering endowments from the internal and external environment. Internal venturing has a unique access to the firm's endowment base and corporate context that allows it to exploit and leverage these endowments within a variety of different environments. The interaction of these endowments creates understanding between the relationship among the antecedents to and outcomes of corporate venturing by interacting with the external environment. This interaction resulted in learning and the creation of new idiosyncratic endowments. The theoretical framework links internal venturing to corporate renewal by proposing that these endowments are transferred to the firm using organisational learning. The theoretical framework furthermore proposes that these endowments are subsequently diffused, assimilated and utilised within the firm to form part of the firm's endowment base and to transform the firm's corporate context. Therefore, internal venturing provides new endowments needed by the renewal process and links it to the firm's endowment base.

The theoretical framework was assessed using the Development Bank of Southern Africa (DBSA) as an exemplary case study. The case of ICV at the DBSA firstly confirmed that there was a need for the Bank to align its corporate context with its operating environment;

hence there was a need for renewal. This need led to the initiation of internal venturing with the specific aim of transforming the Bank's corporate culture, an important element for renewal in its corporate context. Essentially, the case study found that initial endowments from the firm are used to acquire new endowments. The internal venturing programme did have access to the firm's competence and to the knowledge from outside partners, which was used to acquire new endowments.

Furthermore, the case study showed that old and new endowments were combined during the internal venturing process, which resulted in the creation of new endowments. The training initiative, in particular, resulted in the creation of new competence as did the venturing process itself. The case study could however only confirm that these new endowments were transferred to the firm using organisational learning in as far as the transfer was limited. Although the Bank had processes and systems in place to learn from the venturing experience and transfer new endowments, problems were experienced with the implementation of ventures limiting the extent to which endowment transfer occurred.

It was found that some of the endowments and lessons learnt while venturing did have an impact on the corporate context at the DBSA, however the changes that occurred could not be ascribed solely to internal venturing. Furthermore, internal venturing succeeded in its goal of cultural change within the Division responsible for venturing. Nevertheless, it was difficult to assess how much of the change in the corporate could be ascribed to venturing and how much to the change in leadership that took place.

The value of this study lies in the synthesis of a divergent number of corporate venturing sources into a coherent theoretical framework and the assessment there-of in the Southern African context. Few studies have been conducted in the Southern African region on the topic of internal corporate venturing and endowment transfer. Finally, this study contributed to understanding the associations between internal venturing and corporate renewal, by showing that ICV can theoretically function as a tool to instigate corporate renewal.

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Appendices

7.1 Appendix A: Correspondence with the Development Bank of Southern Africa

7.1.1 Correspondence to ask permission



UNIVERSITEIT•STELLENBOSCH•UNIVERSITY
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Dear Mrs. Mamathe Kgarametsa-Phiri,

In reference to our telephone conversation on Friday, I would like to thank you for agreeing to engage in correspondence with me. In this letter, I want to provide you with some more information on my Masters thesis at the University of Stellenbosch.

I am currently researching the use of internal corporate venturing as a corporate renewal tool.

I would like to do is to assess a framework I developed from a literature review, by using the internal venturing efforts of the Development Bank of Southern Africa as a case study. This framework proposes that internal venturing leads to corporate renewal in four main steps. I attach a document with a summary of the thesis and an outline of the theoretical framework, which you can peruse at your leisure.

Because of your in-depth knowledge of internal venturing, and position as the head of the venturing department at the DBSA, I would like to interview you and some of your staff members. I would like to do so in person, if possible, or alternatively by telephone.

Thank you once again. I believe that your input will be very valuable to my study and I look forward to hearing your ideas and opinions on the subject.

Warm regards,

Rudi Scholtz

7.1.2 Correspondence with participants

Dear

I would hereby like to introduce myself: I am a student at the University of Stellenbosch, currently researching the use of internal corporate venturing as a corporate renewal tool for my Masters thesis. Your contact details were given to me by Ms Mamathe Kgarametsa-Phiri.

I am conducting a case study on internal venturing in the DBSA and because of your involvement with venturing, I believe you could be of great help to me in my studies. As part of my study, I would like to hear your ideas and opinions on the subject of corporate venturing. I will be coming to Pretoria a little later this year and I would like to interview you personally, if possible.

To be more specific, the study focuses on the following aspects: A case study involving testing a framework proposed from corporate venturing literature. This framework proposes that internal venturing leads to corporate renewal in four steps:

1. The allocation and/or co-optimization of initial endowments (consisting of resources knowledge and competence) to the venturing process, are used to acquire a set of endowments that is new to the firm.
2. The initial and new endowments are combined in new and innovative ways during the venturing process, which leads to the creation of new idiosyncratic knowledge and competence.
3. The newly acquired and created knowledge and competence are then transferred to the firm via organisational learning.
4. The knowledge and competencies become part of the firm's endowment base, which leads to a change in a firm's competitive approach, and hence to renewal.

If you would like to share your knowledge and experience with me, please let me know the most convenient time to contact you, either telephonically, or my means of e-mail.

Kind regards,
Rudi Scholtz

7.2 Appendix B: Interview guide

Greet and thank the interviewee for agreeing to meet. Briefly introduce the study and refer to the theoretical framework. Ask for permission to record the conversation to ease later analyses:

Questions for Interviews:

1. Can you briefly describe your role in the Development Bank?
2. What did you learn from the venturing efforts?
3. Would you say the DBSA as an organisation learnt from its venturing efforts?
4. What did they learn?
5. What changes did you observe in the DBSA because of venturing?
6. Did venturing make the DBSA more flexible or adaptable in any way?
7. Where are venture ideas sourced from?
8. In your opinion, has the DBSA used what it learnt from venturing to improve the way it manages itself?
9. What is the decision to pursue a venture based on (*filter*)?
10. To what extent does venturing make use of knowledge from outside of the DBSA such as its suppliers, customers, universities and government?
11. How do you store and document what you have learnt from venturing?
12. Where did the venture obtain the resources and know-how needed to make the venture work?
13. Was the competence of the firm used during venturing? If yes, in which areas?
14. During the venturing process, to what extent would you say that the existing knowledge and competence was transferred to the DBSA.
15. How does the transfer of what has been learnt happen from the venture to the DBSA?
16. Would you say that venturing has helped the DBSA adapt to the environment and the challenges it faces?
17. In your opinion, does internal venturing contribute to firm's ability to acquire or create resources, knowledge, and competence?
18. Have you noticed any changes in any of the following:
 - The DBSA's culture,
 - business model,
 - markets, products, or technologies?
19. Finally, would you please name any other persons with whom I could get in contact with to provide me with further insight into my study?