

15.6: From Entrepreneurship to Intrapreneurship

Learning Objectives

1. Understand the background of intrapreneurship.
2. Recognize the difference and relationship between entrepreneurship and intrapreneurship.
3. Know the inputs and challenges to the intrapreneurial organization.

Intrapreneurship and Its Roots

The power and spirit of entrepreneurs and entrepreneurship are also felt in the context of established businesses. In 1992, for instance, *The American Heritage Dictionary* brought **intrapreneurship** and **intrapreneur** into the mainstream by adding intrapreneur to its dictionary, defining it as “a person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk taking and innovation.” *The American Heritage Dictionary* (Orlando, FL: Houghton Mifflin, 1992), s.v. “intrapreneur.”

Intrapreneurship in Action

Google lets its technical employees spend up to 20 percent of their time on projects of their own choosing. This freedom is a “license to pursue your dreams,” as Google’s Marissa Mayer, one-time VP of search products, called it in *Fast Company* magazine. Chuck Slater, “Marissa Mayer’s 9 Principles of Innovation,” *Fast Company*, February 19, 2008, accessed March 16, 2011, www.fastcompany.com/article/marissa-mayer039s-9-principles-innovation. In 2006, Mayer said that half of the new products and features launched by Google in the last six months of 2005 came from work done under the “20 percent rule.” Jeff Jarvis, *What Would Google Do?* (New York: HarperBusiness, 2009), 111.

In the early 1980s, Gifford and Elizabeth Pinchot were developing the concept of the intracorporate entrepreneur and coined the word *intrapreneur*. Under their model, a person wishing to develop an intrapreneurial project would initially have to risk something of value to themselves—a portion of their salary, for instance. The intrapreneur could then sell the completed project for both cash bonuses and intracapital, which could be used to develop future projects. On the basis of the success of some of the early trials of their methods in Sweden, the Pinchots began a school for intrapreneurs. In 1985, they published their first book, *Intrapreneuring*, combining the findings from their research and practical applications. Gifford Pinchot and Elizabeth Pinchot, *Intrapreneuring* (New York, NY: Harper & Row Publishers, 1985).

In their book *Re-Inventing the Corporation*, John Naisbitt and Patricia Aburdene cited intrapreneurship as a way for established businesses to find new markets and new products. John Naisbitt and Patricia Aburdene, *Re-Inventing the Corporation* (New York: Warner Bros Publications, 1985). Steve Jobs also described the development of the Macintosh computer as an intrapreneurial venture within Apple. In 1990, the concept was established enough that Rosabeth Moss Kanter of the Harvard Business School discussed the need for intrapreneurial development as a key factor in ensuring the survival of the company in her book *When Giants Learn to Dance*. Rosabeth Moss Kanter, *When Giants Learn to Dance* (New York: Free Press, 1990).

Differences between Entrepreneurs and Intrapreneurs

The primary difference between the two types of innovators is their context—the intrapreneur acts within the confines of an existing organization. Most organizations would dictate that the intrapreneur should ask for permission before attempting to create a desired future—in practice, the intrapreneur is more inclined to act first and then ask for forgiveness later, rather than ask for permission before acting. The intrapreneur is also typically the intraorganizational revolutionary—challenging the status quo and fighting to change the system from within. This ordinarily creates a certain amount of organizational friction. A healthy dose of mutual respect is required in order to ensure that such friction can be positively channeled. In summary, then, an intrapreneur is someone who operates like an entrepreneur but has the backing of an organization.

Intrapreneurship in Action

Sharon Nunes is a vice president at IBM Technologies. Here, in an excerpt from a 2009 WITI newsletter, she relates her own experience as an intrapreneur at IBM:

The fact that I’m leading IBM’s Big Green Innovations group—focused on water management, alternative energy, and carbon management—isn’t a coincidence. It’s because I wanted to work on something I care deeply about, and I worked hard to raise awareness inside the company that this wasn’t just a good idea—it was imperative.

Our Big Green Innovations initiative was started as part of a \$100 million investment in ten new businesses based on ideas generated during InnovationJam in 2006. IBM used Jams to enable broad collaboration, gain new perspectives on problems and challenges, and find important patterns and themes—all with the goal of accelerating decision making and action. Jams are grounded in “crowdsourcing,” also known as “wisdom of the crowds.” This particular “crowd”—hundreds of thousands of IBMers, their families, and IBM customers—called resoundingly for an effort like Big Green Innovations. And so, it happened. Sharon Nunes, “Passing the Technical Torch: ‘Intrepreneurs’ are the New Entrepreneurs,” WITI, September 23, 2009, accessed September 17, 2010, <http://www.witi.com/wire/articles/view.php?id=117>.

Gifford Pinchot’s book *Intrapreneuring: Why You Don’t Have to Leave the Corporation to Become an Entrepreneur* provides ten commandments for intrapreneurs:

1. Do any job needed to make your project work, regardless of your job description.
2. Share credit wisely.
3. Remember, it is easier to ask for forgiveness than permission.
4. Come to work each day willing to be fired.
5. Ask for advice before asking for resources.
6. Follow your intuition about people; build a team of the best.
7. Build a quiet coalition for your idea; early publicity triggers the corporate immune system.
8. Never bet on a race unless you are running in it.
9. Be true to your goals, but realistic about ways to achieve them.
10. Honor your sponsors. Gifford Pinchot and Elizabeth Pinchot, *Intrapreneuring* (New York, NY: Harper & Row Publishers, 1985), 22.

The Intrapreneurial Organization

An **intrapreneurial organization** is one that seeks to systematically promote the spirit of intrapreneurship in targeted parts of the organization. The stellar innovation track records of firms like Merck & Co., 3M, Motorola, Newell Rubbermaid, Johnson & Johnson, Corning Incorporated, General Electric, Hewlett-Packard, Walmart, and many others demonstrate that bigness isn’t in itself antithetical to intrapreneurship. At the same time, these are but a few of the thousands of large firms around the world. Understanding the obstacles to entrepreneurship in large, established firms will put you on firmer ground when it comes time to translate what you know about entrepreneurship in general to the process of corporate intrapreneurship.

As you may have guessed by now, intrapreneurs have helped increase the speed and cost-effectiveness of technology transfer from research and development to the marketplace. The following are some methods that have been used by businesses to foster intrapreneurship:

- Intrapreneurial employees are able to participate in the rewards of what they create, such as being granted something like ownership rights in the internal enterprises they create.
- The firm treats intrapreneurial teams as a profit center, rather than as a cost center (i.e., teams are expected to make money). Some companies give their intrapreneurial teams their own internal bank accounts.
- Team members can choose the projects on which they work or the alliances they join.
- Employees have access to training to help them learn new skills.
- Internal enterprises are recognized within the organization and have official standing.
- The organization defines and supports a system of contractual agreements between internal enterprises.
- The intrapreneurship plan includes a method for settling disputes that may arise around the internal enterprise and employees.

Companies that want to gain the benefits of intrapreneurism create systems for identifying employees with intrapreneurial traits and help develop those employees through training and reward them through incentives. The intrapreneurial organization can take on one or a combination of two forms: coexistence or structural separation.

The Coexistence Approach

A firm may seek to develop a new business around some valuable process or technological breakthrough. With the coexistence approach, the new venture activities are conducted within an existing business or business unit. Typically, an executive or group of executives will champion the innovation, and the process will proceed when the business concept has been tentatively validated and many of the major uncertainties resolved or reduced. Diana L. Day, “Raising Radicals: Different Processes for Championing Innovative Corporate Ventures,” *Organization Science* 5, no. 2 (May 1994): 148–72. Attention then shifts from opportunity

validation to the process of bringing the new business to life. Efforts are directed at assembling resources and capabilities, meeting production and sales goals, and solidifying organization. Interestingly, researchers note that creating a business climate supportive of entrepreneurial activity is the most difficult task faced by a large company in trying to integrate an innovative new business. David A. Garvin, “A Note on Corporate Venturing and New Business Creation,” Harvard Business School Note 302-091, March 2002, 1–20.

As a general rule, new-venture activities like those described are less predictable and are therefore riskier than those in which a firm traditionally engages. In particular, they face four obstacles:

1. Although false starts and failures can sometimes be important learning mechanisms, most large firms naturally try to mitigate them by improving efficiency.
2. Moreover, new ventures often meet resistance because they challenge long-established assumptions, work practices, and employee skills. After all, *new* by definition means *different*.
3. New ventures can threaten existing businesses beyond simply being different. For instance, a retail store that sets up an Internet sales site has the challenge of growing both its online store and its brick-and-mortar store, even though the Internet may inevitably be cannibalizing the brick-and-mortar store’s sales.
4. Ironically—and most importantly—large organizations often lavish *too many resources*, including cash, on new ventures. How can this practice be a problem? To be successful at a new corporate venture, large firms must learn to be simultaneously patient and tolerant of risk on the one hand and stingy on the other. The need for stinginess comes from the observation by strategy researchers that corporate new ventures tend to thrive when their managers must face new markets on the same realistic terms that start-ups outside the corporate bureaucracy typically do.

The Structural-Separation Approach

The second form of organizational intrapreneurship, in which the firm sets up an internal new-venture division, is actually a structural solution to these same problems. In many ways, this division acts like a venture-capitalist or business incubator, working to provide expertise and resources and to impart structure and process in developing the new opportunity. In this case, too, the opportunity may revolve around some proprietary process, product, or technological breakthrough. This approach is designed to achieve one of two possible objectives:

1. To create a high-growth new venture that the firm can sell off through an IPO at a significant profit
2. To create and retain internally a new business that will fuel growth and, perhaps, foster corporate renewal

The advantage of the structural approach is the system for investing in a team that’s assigned specifically to the creation of new ventures. If the system is managed properly, these divisions can function like the best venture-capitalist operations—that is, they can be cost conscious while still encouraging risk taking, experimentation, and novel, market-oriented solutions. Even this approach, however, falls far short of creating a win-win situation. A new-venture division—and for that matter, new venturing in any form—is a form of diversification, with the firm betting that it has the resources and capabilities to do something new.

The structural approach first became popular in the late 1960s, when 25 percent of the *Fortune* 500 maintained internal venture divisions. Norman D. Fast, *The Rise and Fall of Corporate New Venture Divisions* (Ann Arbor: UMI Research Press, 1978). The next wave came in the late 1970s and early 1980s, as large players such as Gillette, IBM, Levi Strauss & Co., and Xerox launched internal new-venture groups. R. E. Gee, “Finding and Commercializing New Business,” *Research-Technology Management* 37, no. 1 (1994): 50. Next came the Internet boom, when many firms set up divisions to run e-commerce operations that mirrored their traditional brick-and-mortar operations. Remember, however, that the hallmark of new-division performance isn’t internal rate of return. It’s the amount that a dedicated venture capitalist would earn on the same amount of money invested over the same period of time. By this standard, the performance of most internal venturing divisions falls short. Henry Chesbrough, “Designing Corporate Ventures in the Shadow of Private Venture Capital,” *California Management Review* 42, no. 3 (Spring 2000): 31–49. Why? Although a firm may have proprietary access to a valuable technology, it probably doesn’t possess the necessary venture-capitalist managerial skills and experience. In addition, when it’s in the hands of a new-venture division, the new business is isolated from the rest of the organization. As a result, the parent firm is insulated from the new business and, therefore, less likely to learn from its successes and failures. By the same token, the new venture has limited access to other proprietary resources and capabilities possessed by the parent firm.

Is corporate new venturing, then, doomed to failure? Of course not. Firms must, however, be careful to balance the requirements of entrepreneurial ventures—such as a supportive entrepreneurial climate—with the benefits of sustained linkage to the parent firm.

Entrepreneurship professor David Garvin of Harvard Business School has recently reviewed the history of corporate new venturing. He suggests that corporate new ventures are more likely to succeed when they

- are developed and validated in firms with supportive, entrepreneurial climates;
- have senior executive sponsorship;
- involve related, rather than radically different, products and services;
- appeal to an emerging subset or current set of customers;
- employ market-experienced personnel;
- test concepts and business models directly with potential users;
- experiment, probe, and prototype repeatedly during early development;
- balance demands for early profitability with realistic timelines;
- introduce required systems and processes in time, but not earlier than the new venture's evolution required; and
- combine disciplined oversight and stinginess with entrepreneurial autonomy. David A. Garvin, "A Note on Corporate Venturing and New Business Creation," Harvard Business School Note 302-091, March 2002, 1–20.

Garvin's guidelines for successful corporate venturing suggest that there are other inherent tensions in the decision-making process as well. Even when a firm succeeds in creating a climate that's supportive of intrapreneurship, the evolving characteristics of the new venture may result in a unit that's more distinctive from the core businesses than it is complementary to them. In that case, it might be wise for the parent firm to allow the new business to function independently—physically and legally. In part, the increase in new-venture public offerings or carve-outs, where the parent company takes the new business public through an initial public offering, or IPO, can be attributed to the willingness of firms to take this advice.

KEY TAKEAWAYS

- Intrapreneurship is the form of entrepreneurship practiced within existing organizations.
- The intrapreneur is typically the intraorganizational revolutionary—challenging the status quo and fighting to change the system from within. The entrepreneur is the challenger from outside the firm.
- An organization can develop a culture of intrapreneurialism such that it can operate nimbly in an entrepreneurial fashion as the environment changes or that it can act as an industry disruptor. There are two approaches to intrapreneurship—the coexistence approach and the structural-separation approach.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. How is intrapreneurship similar to and different from entrepreneurship?
2. How might intrapreneurs differ from entrepreneurs?
3. What challenges might an intrapreneur face?
4. Why might organizations have an interest in becoming intrapreneurial?
5. What challenges do organizations face in becoming more intrapreneurial?

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