

## **Introduction: With International Business Administration and Entrepreneurship into the future of management education**

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*Published in:*  
Foundations of Management & Entrepreneurship

*Publication date:*  
2022

*Document Version*  
Publisher's PDF, also known as Version of record

[Link to publication](#)

*Citation for pulished version (APA):*  
Wenzel, M. (2022). Introduction: With International Business Administration and Entrepreneurship into the future of management education. In M. Wenzel (Ed.), *Foundations of Management & Entrepreneurship: Concepts and Cases* (2 ed., pp. 1-6). OS insights. [https://osinsights.files.wordpress.com/2022/03/foume-2nd\\_ed.pdf](https://osinsights.files.wordpress.com/2022/03/foume-2nd_ed.pdf)

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# **Foundations of Management & Entrepreneurship Concepts and Cases**

**Second Edition**

**Matthias Wenzel (Ed.)**

## **Foundations of Management & Entrepreneurship: Concepts and Cases**

In its second edition, this thoroughly updated edited collection provides management scholars, students, and practitioners with an overview of foundational concepts and approaches in management and entrepreneurship. To do so, students of the Leuphana University of Lüneburg draw on more or less well-known cases to illustrate and reflect on these concepts and approaches. These reflections inspire ways forward in gaining an understanding of what it means to be a manager or entrepreneur in contemporary organizations.

**Matthias Wenzel** is Professor of Organization Studies at the Leuphana University of Lüneburg, Germany.

**Foundations of Management & Entrepreneurship:  
Concepts and Cases**

*Second Edition*

*Matthias Wenzel (Ed.)*

**OS INSIGHTS**

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*OS Insights* is a non-commercial platform that provides management students of the Leuphana University of Lüneburg with the opportunity to publish insights generated in courses and seminars. The platform is based on the idea that universities are sites where knowledge production and consumption are not separable and sequenced, but intertwined. In this view, university-based teaching is more than just the transmission of knowledge produced through up-front research. Instead, courses and seminars open up opportunities for jointly reflecting on important phenomena. In doing so, they serve as a springboard for potentially developing original insights that shed light on organizational, strategic, and entrepreneurial theories, approaches, and phenomena.

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First published 2022

Second edition 2022



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ISBN 978-3-9824435-2-2

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Matthias Wenzel

# Introduction: With International Business Administration and Entrepreneurship into the Future of Management Education

*Matthias Wenzel*

This edited collection is a thoroughly updated version of its predecessor (Wenzel, 2022a, b). The aim of this edited collection is to provide management scholars, students, and practitioners with a vivid understanding of selected fundamental concepts, approaches, and theories in management and entrepreneurship. Specifically, management students of the Leuphana University of Lüneburg draw on theories of management and entrepreneurship as lenses for gaining an understanding of what it means to be a manager or entrepreneur in more or less well-known organizations.

Study programs in business administration and management continue to be the most demanded ones among students. As Table 1 shows, programs in business administration host the greatest number of students in Germany by far. In the winter term 2020/2021, 243,000 students were enrolled in business administration—almost twice as many students as in informatics, the second most demanded program. This number does not even include students who were enrolled in study programs that are related to business administration, such as business and economics (#7, 89,476 students), business engineering (#9, 70,120 students), business informatics (#11, 66,722 students), and business management (#17, 50,959 students). Together, students in business-related study programs almost outnumber the remaining top five of study programs in Germany based on the number of enrolled students, and they comprise 17.6 percent of all students enrolled in Germany.

Despite this success, scholars increasingly call for innovations in business administration and management education. For example, in their plea for business administration, Schwenker, Albers, Ballwieser, Raffael, and Weisenberger (2020) argued that studies in business administration make important contributions to organizational success because the tools, methods, and approaches of business administration can help managers tackle organizations' business challenges. However, in their view:

*“This diagnosis [of business administration as a successful and needed field] is not reflected in public perception—because it is possible with some success and without much controversy to write about the ‘emptiness’ of business administration, or even about ‘how business administration contributes to the brutalization of society’; and because, even beyond the polemic, the prejudice that business administration is hardly more than commonsense plus a few mathematical formulas persists.” (Schwenker et al., 2020, p. 7)*

*Table 1*

*Number of students in the largest study programs in Germany in the winter term 2020/2021  
(source: Statistisches Bundesamt, “Studierende an Hochschulen”, Fachserie 11 Reihe 4.1)*

<b>Rank</b>	<b>Study program</b>	<b>No. of students</b>	<b>Perc. of total</b>
1	Business administration	243,000	8.3
2	Informatics	133,765	4.5
3	Law	119,285	4.1
4	Medicine (general medicine)	101,712	3.5
5	Psychology	100,775	3.4
6	Engineering	100,256	3.4
7	Business and economics	89,476	3.0
8	Social work	72,597	2.5
9	Business engineering with an engineering focus	70,120	2.4
10	German language and literature studies	69,256	2.4
11	Business informatics	66,722	2.3
12	Electrical engineering/electronics	66,255	2.3
13	Educational science (pedagogy)	61,853	2.1
14	Mathematics	58,593	2.0
15	Construction engineering/rail and civil engineering	57,611	2.0
16	Biology	54,957	1.9
17	Business management/management	50,959	1.7
18	Physics	50,147	1.7
19	English language and literature studies	48,766	1.7
20	Chemistry	43,826	1.5
<b>Total</b>		1,659,931	56.4
<b>Total number of students overall</b>		2,944,145	100.0

In response to these identified challenges, Schwenker et al. (2020) formulated 16 theses for the development of research and teaching in business administration in four areas. These areas include a focus on excellence, achieving a balance of rigor and relevance, acknowledging the importance of excellence in teaching, and more proactive communication. Thereof, Schwenker et al. (2020) view “excellence in teaching” as (re)accomplishing rigor in business administration and management education by focusing attention on methodological skills, the adoption of contemporary business topics in business administration curricula, new forms of teaching that extend beyond head-on lecturing, and acknowledging universities as knowledge sites that underscore the importance of on-site teaching.

Schwenker et al.’s (2020) plea for business administration undoubtedly is much more optimistic than Ghoshal’s (2005) seminal critique of content taught at business schools. In contrast to making a case for the contributions of business administration and management to organizational success, Ghoshal (2005, p. 75) argued that “bad management theories are destroying good management practice”. This, the author argued, is so because of a “pretense of knowledge” and an “ideology-based gloomy vision”. The “pretense of knowledge” relates to a seemingly “scientific” management education that reduces the richness of knowledge and understanding to overly simplistic tools that impose causal thinking and doing on complex management challenges. This reduction leads to a decontextualized analysis of business challenges, the exclusion of human deliberation and choice, and, therefore, an overly mechanistic and instrumental understanding of applying these management tools in practice. “Ideology-based gloomy vision”, then, refers to the (neo)liberal ideology that is typically inscribed into simplistic management tools taught at business schools. This ideology typically draws attention to the costs of “human imperfections” that management tools, in turn, are supposed to reduce or eradicate. The pretense of knowledge and ideology-based gloomy vision of simplistic management tools combined, Ghoshal (2005, p. 76) argued, produces “excessive truth-claims based on partial analysis and unbalanced assumptions”, such that the contributions of business administration and management to organizational success are far from certain. Perhaps even more strikingly, Ghoshal (2005) reminded us that, as a social science, theories in management can be self-fulfilling in that their application produces the social reality that is reflected in their knowledge-related and ideology-based assumptions. Hence, whereas Schenker et al. (2020) exhorted management scholars and lecturers to communicate the contributions of business administration and management more clearly and become even more

impactful through greater relevance for management practice, Ghoshal (2005) concluded that the field of business administration and management already has more impact on organizations and society than is desirable, namely, by reproducing harmful practices and ideologies through overly simplistic management tools.

These conclusions, however, do not imply that Schwenker et al.'s (2020) theses for innovating business administration are erroneous. These theses might, perhaps, miss out on one important point, namely, to clarify that university-based business administration and management education is, or at least should be, more than the transmission of knowledge about management tools that can be readily applied in practice. In fact, management theories are rarely applicable as such. Instead of being relevant in instrumental terms for immediately solving problems at hand, they are rather relevant in conceptual terms (Kieser, Nicolai, & Seidl, 2015). That is, in management, theories are “lenses” that one may look through when analyzing and acting upon challenges at hand. These lenses foreground some aspects of these challenges while backgrounding others. This implies that users must be both reflexive and reflective about the use of these “lenses”, questioning both their own as well as the lenses’ assumptions so as to stake out both intended and unintended, as well as desirable and undesirable consequences of their use.

Consequently, combining Schwenker et al.'s (2020) and Ghoshal's (2005) insights generates at least five important conclusions about the needs of reform in management education, which are materialized in the Bachelor program in “International Business Administration and Entrepreneurship” (IBAE) at the Leuphana University of Lüneburg in general and this edited collection in particular.

First, to gain an understanding of today's complex business challenges, it is indispensable to include these in the curriculum. Transformations related to digitalization processes and sustainability as well as entrepreneurship as a key way of working through these transformations are arguably the main, if not the most important business and societal challenges of our time (e.g., Wenzel, Krämer, Koch, & Reckwitz, 2020); and in fact, management students demonstrate deep interests in these topics (Wenzel, 2022b). Therefore, IBAE combines “entrepreneurship”, “managing the digital transformation”, and “sustainable and responsible management” with the foundations of business administration as integral features of the curriculum.



Second, methodological skills are important for gaining a comprehensive understanding of today's complex business challenges. Therefore, IBAE's curriculum includes a "methods pillar" that covers the broad spectrum from quantitative to qualitative methods.

Third, in IBAE, "relevance" means "conceptual relevance". Instead of merely educating students in the technical domains of applying management tools, students are trained to become "reflective practitioners" (Schön, 1984) who acquire conceptual knowledge in the form of theories as "lenses" to draw on when analyzing and acting upon challenges at hand, and who continually reflect on the merits and pitfalls of using these lenses *in actu* so as to stake out the organizational and societal consequences of their use.

Fourth, lecturers in IBAE broadly embrace innovative forms of teaching and assessing, including the use of video units, blogs, wikis, and online assessments, among others. By pushing back the prevalence of head-on lecturing, they do justice to the fact that curricula aiming at the formation of other (here, conceptual) skills requires different, more innovative ways of teaching and assessing. Lecturers in IBAE are continually devoted to reassessing and improving their ways of teaching and assessing in these and other regards.

Fifth, despite these innovations, on-site teaching remains the backbone of IBAE. In doing so, the program acknowledges that the university is a key site of knowledge production and consumption. Instead of understanding knowledge production and consumption as separable and sequenced processes, on-site teaching enables us to do justice to the intertwined nature of these processes. That is, in keeping with the Humboldtian model of higher education, research generates content for teaching just as much as teaching can generate original insights that inspire research. While the one-directional nature of head-on lecturing is hardly capable of materializing the promises of intertwined knowledge production and consumption, innovative forms of teaching and assessing can focus on harnessing this intertwinement.

In a way, the edited collection is a condensed manifestation of these issues. In IBAE's introductory course, students worked in small groups to, themselves, gain an understanding of and reflect on foundational theories and approaches in management and entrepreneurship. These foundations included early classics such as Taylor's Scientific Management and Schumpeter's "creative destruction", the Behavioral School, later evolutionary approaches, as well as contemporary approaches such as and effectuation. The students, then, drew on these theories to shed light on a

self-selected case each as to what it means to be a manager or entrepreneur in that case. As will be salient, the selected mainly cut across the three profile areas of IBAE, i.e., entrepreneurship, managing the digital transformation, and sustainable and responsible management. As a result, the edited collection offers readers a vivid, illustrative access to a broad array of management and entrepreneurship theories and approaches across a great variety of exciting cases.

With these innovations, International Business Administration and Entrepreneurship offers itself as a vessel for venturing into the future of management education. The edited collection hopefully contributes to sustaining this innovation path.

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## **I. Early Classics: From Scientific Management to the Behavioral Theory of the Firm**



# Scientific Management: A Key Success Factor for Amazon?

*Milena Bedke*

## Introduction

Where would you order a present of any kind for an occasion that takes place the day after? The answer would most likely be “Amazon” – a company that is associated with its fast and properly delivery of many types of products. The Scientific Management approach aims for the high productivity that seems to be present at Amazon. In this paper, I am going to examine to what extend the company applies this concept in their warehouses. Prior to that, I am going to present the Amazon company, as well as the concept of Scientific Management.

## The Growth of Amazon

The following data about Amazon is gathered from amazon.com, as well as sub websites of about.amazon.de, namely the sections “Our History”, “What is Amazon” and “Our Leadership Principles”, as well as macrotrends.net. They may be referred to as empirical data that can be received on demand.

What started out as a bookstore is now worth \$1416.34 billion (website 1). It was in 1994, when Jeff Bezos founded a new company from the inside of his home-own garage: Amazon.com (website 2). Back then, the online platform was meant to become the largest bookstore in the world, concerning its selection of books (website 2). Thinking about Amazon today, you refer to an online shop that offers almost everything, in the categories “apps and games”, “fashion”, “grocery” ... up to “pet supplies”. Despite the offer of these products, Amazon has invented its own goods, such as Amazon Echo, which is a smart speaker, Amazon Prime, which allows you to receive your delivery charge-free the day after your order, Prime Video, and way beyond. The company has grown quickly up to 1,298,000 employees in 2020, working in over 30 countries (website 5, 6). Nowadays, Amazon.com Inc. expended to embodying the Amazon Development Center for research in machine learning, the Amazon Web Services, a cloud platform, Amazon Robotics, Whole Foods Market, Audible, ... as their number of subsidiary companies keeps increasing and as innovation is part of their leadership principles (website 4, 5, 6).

## The Concept of Scientific Management

All the following information about Scientific Management is based on a presentation published on the Organizational Communication Channel by Lyon, Ph.D. (2016).

It was Frederick Winslow Taylor (1856-1915), “a mechanical engineer and a management consultant” (0:19) who especially coined the concept of Scientific Management that is why it is also known as “Taylorism”. In times when systematic management was not yet the norm, Taylor aimed for organizations to be further “standardized, efficient and productive” (0:43). His approach of Scientific Management got its name from the “[application] of science to work” (0:56). Dissociating himself from the “rules of thumb” (1:06), he wanted to analyze work processes closely to accelerate them. One of his believes was in the “Division of Labor” (1:26), meaning to break up operations into even smaller, uncomplicated tasks and assign these to individual people. His goal was to “determine the one best way, a standard to do every part, every task, to boost productivity” (1:55). Apart from that, a clear division between workers and management was important to him. While managers are supposed to plan and supervise the work that needs to be done, workers are required to solely do the physical work and stick to the instructions. An additional principle of his is “Selection, Training, & Compensation” (2:39). Outstanding workers should be selected and assigned to the work that is the best fit, payment should depend on productivity and workers that cannot keep up were laid off. The method Taylor used for his standardization is “Time & Motion Studies” (3:13). He wanted to figure out the perfect combination of the minutest time needed to fulfil a task with the rarest motions. One could say that employees are expected to perform like machines. The realization of Scientific Management has both lead to advantages, as to disadvantages. Organizations could be up to 400% more productive and need less employees, which leads to a higher revenue and compatible good outcomes. The division of think work and physical work between management and workers is established today. The downsides to this are that higher wages for productive workers are hard to realize, employees are no longer able to see the sense of their work and are easily replaceable. The constant pressure of being more productive leads to a bad work environment and may lead to “burnout[s], dehumanization [and] mental anguish” (10:37).

## Amazon's Application of Scientific Management

To what extent does Amazon apply the concept of Scientific Management? Since Taylorism is one of the classics in management theories it is applicable to many cases, as well as to either an entire company, or solely parts of it. This paper examines where to find this concept particularly in the warehouses of Amazon.

In form of a blogpost, Fan (2020), a former Amazon warehouse employee gives insight into the daily work life from his point of view. He talks about “stowers, packers, tote runners, counters, people who organize totes at downstack ... and people who take items off the floor.” (para. 3). I consider that especially the point, that it is someone's job to pick up dropped pieces, demonstrates that Taylor's division of labor into its smallest steps is established by the company.

Looking at the point of hierarchy and Taylor's proposition that the managers plan and control, Greenpeace detected that the company constantly supervises the work progresses of their employees (Friedrich & Jolmes, 2020). An article written by Friedrich and Jolmes (2020) discloses this procedure: Every item that is, for example, stored or packed, is scanned by a worker. This scanning habit is then forwarded to a supervisor. It gives rich information about the performance of a certain worker, for instance, how many packages they pack in an hour, how many breaks a worker takes, as well as for how long. If the supervisor is not satisfied with the performance, they get in touch with the employee to figure out and solve the problem.

The article by Friedrich and Jolmes (2020) further explains that a software is used to measure the speed of the employees based on their scanning activities. This is later mentioned to be the decision base for whether the “often restricted employment contract[s]” (para. 5) are extended or not on the so-called “Release Days” (para. 7). That way, Amazon adapts Frederick Taylor's layoffs. This leads to a continuously increasing pace in the warehouses of Amazon (Friedrich & Jolmes, 2020).

Due to today's salary regulations as, for instance, the minimum wage it is in some countries no longer possible to pay more productive employees differently. However, Amazon found a different way to solely keep their motivated employees. According to an article by Umoh (2018), the company adopted a program called “Pay to Quit” from the Zappos company that Amazon bought in 2009. The article reveals that Amazon gives full-time employees that work at fulfillment centers the opportunity to get up to \$5000 for leaving the company forever. How is this supposed to motivate the employees? Jeff Bezos's (2014) headline for the proposal is: “Please Don't Take This



Offer,” (as cited in Umoh, 2018, para. 6). Hence, Umoh (2018) discovered that, first, the intention behind this is to have motivated employees in your company that really want to work at Amazon. Second, high engaged workers are more productive. This implies that Amazon believes as much into motivated workers as Frederick Taylor once did.

Amazon has faced increasing complaints about the very monotonous, machine-like way of working (Bensinger, 2019). To counteract that “laborers feel like cogs in a bigger machine” (para. 14), Amazon tested the concept of “gamification” at five different locations to motivate their workers (Bensinger, 2019). An article written by Bensinger (2019) and published by the Washington Post explains that every single scan refers to a small progress in a game. Two people, teams or entire stages may race on small screens that are installed at the different workstations to complete customer orders (Bensinger, 2019). Bensingers (2019) research revealed different feedback, though. A few respondents find the effect rather positive, based on the effort that you put into your task to achieve the team win. However, a quoted game developer remains skeptical since losing a game may lead to less fun and might even cause counterproductivity.

Taylor introduced his approach over a hundred years ago. Meanwhile, the business environment has changed significantly. Nowadays, Amazon warehouse workers “increasingly [have to] work alongside robots” (Bensinger, 2019, para.14), which perform simple tasks in an extremely fast way without making mistakes or having the need for breaks. This would be in high interest of Taylor.

## **Conclusion and Outlook**

When investigating Amazon’s warehouse management, many parallels to Taylor’s Scientific Management become visible and reveal the application of the concept to a large extend. However, Amazon has adjusted the pure Taylorism as success factor to their needs and today’s challenges.

With gamification Amazon has entered the next level of Scientific Management, called Taylorism 2.0 (Lobe, 2016). The rapid evolving digitalization might animate Amazon to go one step further and to track not just the performance but also the well-being of employees to increase productivity even more (Lobe, 2016). However, the public reputation of Amazon could slow this step down, as employees might have to face even higher pressure or feel dehumanized.

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# Higher, Faster, SpaceX: The Management Style of Elon Musk

*Sofia Félix dos Santos*

## Introduction

The general public might know Elon Musk as a visionary, the CEO of multi-million dollar companies like Tesla and SpaceX, an entertainer who mixes cryptocurrency with pop culture (i.e. Dogecoin), and also happens to be one of the richest people on earth. Though glorified by many aspiring entrepreneurs all over the world, his notorious management style has been criticized by many. This book chapter aims at depicting Elon Musk's management style from an objective point of view and examining whether the *Scientific Management* theory discussed in the Foundations of Management and Entrepreneurship class is applicable to SpaceX, the company I will be using as a representative example.

## General Analysis of SpaceX's Management Structure

Since according to Musk, the space industry had not noticeably evolved in the last 50 years, the foundation of SpaceX wiped the slate clean in America's rocket business. Other aerospace companies tended to produce extremely expensive rockets and had little competition which, inevitably, resulted in a lack of innovation. Thus, Musk grasped onto start-up techniques from his former Silicon Valley experiences and founded SpaceX. The astronautics company could get a competitive advantage by quickly building better and cheaper rocket engines than anyone else on the market. Now, SpaceX's headquarters are located in Hawthorne, California, where the company works on building multiple rockets from scratch that are intended to be reused instead of being discarded (Vance, 2015).

This is without any doubt a daunting task that needs a dedicated and strong-willed leader so that operations can run smoothly and goals are achieved on time. Vance's biography about Musk (2015) gives an insight on how employees face daily challenges in order to satisfy Musk's ambitious aims, including one day colonizing Mars: "When Musk sets unrealistic goals, verbally abuses employees, and works them to the bone, it's understood to be - on some level - part of the Mars agenda. Some employees love him for this. Others loathe him but remain oddly loyal out of respect for his drive and mission." (Vance, 2015, p.13).

According to the author, many employees have indeed left Musk's firms and were willing to talk about their experiences. Years after establishing and selling his first start-up, Zip2, he reflected on how differently he should have treated his personnel. He realized empathy plays an important role when communicating with his employees. When he was correcting a software engineer's code, for instance, Musk's confrontational style actually worsened the situation because he might have fixed the program for now, but the way he spoke to that person discouraged them and made them unproductive (Vance, 2015).

Still, the reason the majority of his employees stay loyal to the firm and work hard everyday is Musk's inspirational enthusiasm to achieve a bigger goal, especially after many gave up their hopes about anything groundbreaking happening in space again. Besides, him having a deep autodidactic understanding of astrophysics, aerodynamics and rocket science enables his staff to learn from their leader constantly - as opposed to working for something the employer has no idea about. As leadership has a direct influence on corporate culture, efficiency, and productivity, it makes sense for Musk to impose a demanding narrative onto his employees. A bold management style is capable of empowering them and pushing them towards being their best and most productive selves (Hamed, 2021).

## **Application of Scientific Management Theory**

Being interested in physics, technology, and programming from a young age, Elon Musk is not only a successful businessman, but "also wired like a scientist" (Vance, 2015, p. 6). Therefore it made sense for me to explore potential connections between Frederick Taylor's *Scientific Management* theory, also known as *Taylorism*, and Elon Musk's management structure at SpaceX.

Frederick Winslow Taylor (1856-1915) was a successful American inventor and engineer. He published his thoughts on scientific management in 1911 which he developed "through constant scientific experiments and scientific calculation." (Su, 2017, p.1). The concept mainly revolves around improving labor productivity using four key concepts.

Firstly, "[replacing] working by 'rule of thumb,' or simple habit and common sense, and instead [using] the scientific method to study work and determine the most efficient way to perform specific tasks." (Eyre, 2010). This is especially true for Musk and the way he approaches his own work as well as the expectations he has for his employees. Since "Elon believes in the science of

things” (Vance, 2015, p.12), he would endorse approaching his and his employees’ working methods from a scientific point of view to achieve the best performance possible.

Secondly, “[r]ather than simply assign workers to just any job, match workers to their jobs based on capability and motivation, and train them to work at maximum efficiency.” (Eyre, 2010). As stated before, motivation of every single staff member plays a massive role in Musk’s managerial philosophy, so that not only loyalty to the company, but also personal fulfillment can be attained. Afterall, there is a direct correlation between an employee’s productivity and their satisfaction level (Hamed, 2021).

Thirdly, “[m]onitor worker performance, and provide instructions and supervision to ensure that they’re using the most efficient ways of working.” (Eyre, 2010). Musk is an open advocate for technoliberal development and all things digital, which is why I would assume he includes ways to monitor the workers and their performance in order to collect data and have a factual basis for constructive criticism but also praise and appreciation.

Lastly, “[a]llocate the work between managers and workers so that the managers spend their time planning and training, allowing the workers to perform their tasks efficiently.” (Eyre, 2010). This point might slightly differ from Musk’s managerial style. In fact, Musk is well aware of his skills and goals and would like for everyone to “behave like [him]” (Vance, 2015, p. 42), even though he eventually figured out there are no replicas of him. Referring to the “coding incident” mentioned in the second chapter, it is fairly common for Musk to take over and do the work himself if he is unsatisfied, which might result in some disruptions within workflow.

## **Conclusion**

“Employees fear Musk. They adore Musk. They give up their lives for Musk, and they usually do all of this simultaneously.” (Vance, 2015, p. 132). This extreme loyalty coming from his employees had resulted in great achievements, for example flying a supply capsule to the ISS and bringing it back to earth safely. What makes all the team members stick together and ceaselessly strive for improvement are the several visible accomplishments of SpaceX, where every member can feel the joy of working on and being part of something bigger. Not only is Musk an entrepreneur and a scientist, he is also a visionary, whose leadership aims towards offering their services to better society and the world. To sum it up, Elon Musk’s visionary leadership, even

though sometimes rigorous, has a positive impact on the performance of the employees and the company as a whole (Hamed, 2021).

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# **In What Manner does “Global Office” Implement the Behavioral Theory of the Firm? Explanatory Reflections on the Concept**

*Emely Matthes*

## **Behavioral Theory of the Firm (BFT)**

Profit maximizing is the focus for many firms. However, the Behavior Theory of the Firm instead shifts the aim to predict the performance of a firm in many ways like their pricing or resource allocation (John B. Miner, 2006). Following my task is to gain an understanding of the theory itself and how it was, deliberately or unconsciously, applied. The theory was set up by James March and Richard Cyert in 1952. A focus on decision-making and intrinsic motivation for employees is supposed to lead to success. The firm forms the basic unit and builds a coalition structure between all involved, for instance, managers, employees, stakeholders, or customers. That means different interests are included in the decision-making process to gather knowledge and reduce conflicts in the following cooperation (Cyert, 2003). When proving proposals two criteria are applied usually: Required funds need to be approved by a financial measurement and an improvement measure needs to assess whether the proposal will improve the health of the firm (Ahuja, 2007).

Because bilateral management is responsible for coordination, good communication in and between all levels is implemented and forms satisfaction through feedback and emotional support (E. Eugene Carter, 1971).

## **Global Office as a Firm & Erik Krömer as an Entrepreneur**

I want to note beforehand that most of my collected information found its origin in an interview with the entrepreneur himself and the webpage of Global Office.

The story of Erik Krömer and his future firm started several years ago when he already has been working for sixteen years at another big company. He has been commissioned to ensure personal customer accessibility for 500 branches in locations that are difficult to reach and following built up an intern call center. The conclusion came right after: Availability is the key for every firm! That was the foundation to raise “Global Office GmbH” in 2008. The focus of Global Office is not to create “Creative Destruction” from a receptionist to a so-called “phone-angel”, instead

they're just aiming for support in peak times. "We catch everything that the capacity does not allow and form business out of it!" (Erik Krömer, 2021).

Today 130 employees work in the head office in Montabaur (Germany), including 40 in the administration department. As a franchise firm, they have around 50 sublocations in Austria, Germany and Italy. A cooperation is formed with over 1400 companies of every sector with a concentration on the hotel-/ automotive industry and the health sector (interview).

## **BFT and Global Office**

### *Structure of the Firm*

In the last 1.5 years, the number of employees has doubled and in the first eleven months of 2021 the turnover was already 50% above the previous year, which has been the most successful year in the company's history until now. The achieved jumps in revenue caused a lot of motion which led to a need for a highly structured system for all processes. Erik Krömer stepped apart from the common structure of a fir tree or matrix-picture to the concept of an "inner core" (administration) and "outer ring" (innovation). To stabilize the business the administrators look after the daily business like invoicing, HR and service delivery. Even though everyone can hand in ideas, just the outer ring is concentrating on process optimization and product-/ business development to secure profit (interview).

When it comes to the decision-making process everyone, even the franchiser, can take part. Transparency and overall satisfaction are important for Global Office (interview).

### *Intrinsic Motivation*

Like it is said in March's theory, Global Office follows the system: A satisfied and comfortable worker is to be aimed for (Cyert, 2003). "You cannot force motivation", Erik Krömer implemented, "all one can do is to ensure a comfortable working environment." For instance, Mr. Krömer tries to consider all wishes regarding working hours (20/30/40 hours a week) and working environment (home office/open-plan office/single office). Flat hierarchies prevail, everyone is addressed by their first names and next to classics of provided fruits and coffee, there are teambuilding concepts for their breaks and after-work-parties in summer (interview).

But that's not enough for Global Office: "You need to create a sense in work". Next to a meaningful outcome of the service, it can lead to even more happiness and inspiration if you can give a wider sense of impact. They made it happen by building a school for over 100 children in Namibia (webpage). Carrying out a social project as a union makes pride, gives hope and even with the unlikely event of the firm going bankrupt, this school will always be sponsored by Global Office and every employee and partner. This feeling and the continuing support in Namibia elevate a different motivation level, regarding Erik Krömer (interview).

### *Being an Entrepreneur*

Because Mr. Krömer hired experts in their fields, he is not the best IT person or auditor "but through this gathered know-how we can form success", he advised. He does not see himself as the manager for everything, instead as the motivator. "It's like I am the coachman, my experts are the horses and I let go of the reins since our relationship is built on trust." (Erik Krömer, 2021)

To be able to achieve this success, the "secret of Erik Krömer" is to watch the soft skills when choosing who works for you. According to the entrepreneur, it is in the nature of an individual to be willing to do a good job and to create a positive mindset or not. Nevertheless, it is not simple to filter; every entrepreneur needs to find their own system to choose employees and to tease out their abilities (interview).

### *Reflection of BTF in Relation to Global Office*

Different levels of management, embodied by experts in all fields, are utilized to form intense communication, regular feedback rounds and less pressure for all high positions in the company. This leads to success over the long term. Profit is reached through a unique working environment with intrinsic motivation. Since one has fun with what they are working on, one starts to also ponder after work about the challenges of the day without feeling a burden. The freedom of forming own tasks, an own design of workplace and aims bring this mentioned craic at work. The aspect of just forming a helping hand and not a replacement for the customer service in their clients' companies as well as building the school in Namibia illustrate that for Global Office the most important aspect is not gaining as much profit as possible. Yet the concentration is on satisfaction for everyone. The aim is to form a comfortable working base for employees, managers, franchisers and everyone involved like the BTF implements. But unlike the theory (Ahuja, 2007),

these aims of Global Office were still thought about to generate overall profit and not to find the best compromises between everyone involved (interview). By implication, this shows the “Behavioural Theory of the Firm” is certainly able to gain big profit, probably even without the proper aim of doing so.

Even the Covid 19 pandemic did not blight Global Office’s success. “Where markets disappear, new ones open up elsewhere” (Erik Krömer, 2021), recognized the firm quickly and with the already existing home office structure and the described well-working communication, it was easier to apply changes in comparison to other businesses. The firm predicted the behaviour of markets and found their new foothold in the health field. This made 2020 the year with the strongest revenue (interview). Considering the past passage, I see an additional strength of BFT in being more flexible in applying changes because of outer circumstances since various working structures and high communication are standard.

## **Reflection of the Concept Overall**

Aiming for satisfaction can lead to conflicts since there exist a lot of different opinions in a coalition of groups with various interests. It needs a lot of experience to form a running company over this principle.

Nevertheless, the example of Global Office shows that functioning care for employees with the aim of satisfaction can not only ensure better results or intrinsic motivation, yet also is able to attract good workers, who can help to simplify the system explained above. Working when you are dynamic and with a positive mindset can produce a more than satisfying output and could act as positive future prospects.

Considering the high expectations Global Office has towards themselves regarding their employee’s contentment (interview), a critical perspective towards the “Behavioural Theory of the Firm” could be created. The constant pressure on the entrepreneur to ensure a good working atmosphere and cooperation could possibly cause stress or illness. It is a time-consuming job and requires know-how, but like shown above, it can work out with the right attitude and suitable managers and employees.

It is also up for discussion how highly the principles are generalized. In some cases, the calculated behaviours might not pay out and specific actions might not lead to a compromise. This outcome

potentially leads to big frustration or conflicts. Another question to ask nowadays is, whether the environmental aspect gets forgotten within the concentration of happiness for humankind.

To conclude, the “Behavioural Theory of the Firm” is not easily implemented. It requires an experienced entrepreneur who is prepared to take a risk, yet it can lead to success and satisfaction. It could be reflected upon revising or adding some modern terms to the theory when applying.

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## **VEJA & The Behavioral Theory of the Firm**

*Florian Reiter*

### **VEJA**

#### *The Company*

VEJA is a French Limited Liability Company that sells shoes and accessories. It was founded in 2005 by former investment bankers Sébastien Kopp and François-Ghislain Morillion who are also the sole shareholders. The idea of the brand is to offer sneakers that are both stylish and produced under the best possible social and ecological conditions. (Lo, 2018; VEJA, n.d.)

#### *History*

After the founders Kopp and Morillion started an NGO in 2002 which purpose was to consult big companies on how they would be able to improve their ecological footprint and their working conditions, they found themselves surprised and upset by the little effort that was taken by these brands to produce more responsibly. With that in mind, Kopp and Morillion decided to start their own project where they would combine their passion for sneakers and their will to produce with greater respect to nature and employees. (Carter, 2019) The French men started VEJA which stands for “look” in Portuguese, the national language of Brazil, where the shoes are made. (Lo, 2018) Until 2019 the company had sold more than three million pairs and got international media attention, with prominent names like Meghan Markle wearing its shoes. (Carter, 2019) Since December 2021 the firm offers its sneakers additionally in four stores of its own in Paris, New York and Bordeaux. (Schygulla, 2022)

## **The Behavioral Theory of the Firm**

#### *The Theory*

‘A Behavioral Theory of the firm’ is a book published in 1963 by Richard M. Cyert and James G. March. In it, the authors challenge the common view on the structures of companies at the time from a psychological and social-scientific viewpoint. They specifically focus on processes within an organization and how decisions are made. (Cyert & March, 1963/1992)



## *Basic Concept*

Cyert and March (1963/1992) determine that there are three major areas where the method of decision-making in organizations can be explained: *organizational goals*, *organizational expectations* and *organizational choices*. Those are all influenced by a variety of different factors. (p.162-163) Cyert and March (1963/1992) see organizations as a coalition of different individuals with diverse hopes and objectives which results in a goal conflict. The targets might develop over time because of experiences made in the past such as the past performances of the own company and comparable firms. *Organizational expectations* result from the collected available information gathered by a corporation. The process of seeking certain knowledge depends on who is searching and the kind of issue that is tried to be solved. *Organizational choice* is made as a reaction to evoked problems. (Cyert & March, 1963/1992, p.162-163)

According to Cyert and March (1963/1992, p. 164), the following behavior conceptions illustrate “the heart of our theory of business decision making”. It is divided into the (1) *quasi resolution of conflict*, (2) *uncertainty avoidance*, (3) *problemistic search* and (4) *organizational learning*.

### **Quasi-resolution of Conflict**

The authors assume that an organization is a composition of individuals and subgroups with different and partly conflicting goals. The latter are supposed to be distributed in subunits where every subunit can focus on a minimum of relevant objectives. The expectation is that fulfilling local needs leads to a common approach that meets all demands. (Cyert & March, 1963/1992, p.164-166)

### **Uncertainty Avoidance**

There are a lot of areas an organization is depending on but does not have an influence on. Firms generally try to avoid uncertainties. They focus on reacting to short-term issues which are better manageable than making for uncertain events in the future. (Cyert & March, 1963/1992, p.166-169)

### **Problemistic Search**

Cyert and March (1963/1992) assume that companies search in a problem-oriented way. The authors suppose that the search is always motivated by a problem, simple-minded and biased

meaning that the search process is always depending on the experience and expectations of the participants. (p. 169-171)

### **Organizational Learning**

The authors propose that corporations adapt their behavior over time like individuals. Organizations learn from their past experiences and seek improvements in three major areas: they adapt their goals, attention rules and search rules. (Cyert & March, 1963/1992, p. 171-174)

### **The Behavioral Theory of the Firm applied to VEJA**

#### *Organizational Goals, Expectations, and Choices*

Cyert and March (1963/1992) propose that there are different groups of factors that influence the objectives of an organization. One of them being the dimensions of the goals meaning what targets are seen as more important than others within a corporation. The evaluation of those objectives may depend on the organizational expectations, created by the available information. (p. 162-163)

VEJA differentiates itself from other competitors by placing goals such as being as transparent and sustainable as possible in their value for the firm above absolute profit maximization. This target prioritization is underlined by information about better financial production possibilities from a cost estimation of a Chinese factory that is published on the company's website. It shows that in China VEJA would pay three times less than the amount it is paying now in Brazil. (VEJA, n. d.)

Cyert and March state in their theory that organizational choices are always made in reaction to upcoming issues and are often handled in a similar way. (1963/1992, p.163)

An example from VEJA would be the problem of still being able to offer their sneakers for the same prices as their competitors while paying almost five times more for their production. Because of that, the company does not spend any money on advertising since the costs for advertising are extremely high in the branch. Also in the case of certificates VEJA temporarily waived the fairtrade-certificate because it was simply too expensive to maintain the balance between fair working conditions and affordable prices for their customers. (Paff, 2018)

### **Quasi-resolution of Conflict**

As Cyert and March (1963/1992) propose that there are varying goals and interests within a corporation. While the authors of the theory mainly refer to financial factors such as profit targets,

sales targets and production targets (p.164-165), VEJA focuses more on the personal demands of its employees within the production cycle. Nevertheless, financial growth and good sales figures are also important objectives of the firm, but care is taken to ensure that these do not jeopardize the company's idea of producing sustainably and socially compatible. (Rothhaas, 2020)

### **Uncertainty Avoidance**

Cyert and March's assumption that organizations usually react to short-term problems rather than making concrete long-term plans in an uncertain future (1963/1992, p.166-168) can also be seen in the case of VEJA. There are numerous examples of the company reacting to short-term developments within the firm's environment. One is when they used recycled cotton in 2015 and 2016 instead of organic cotton like they did before because of drought periods. (Rothhaas, 2020)

### **Problemistic Search**

Looking for fields with potential for improvement in a problem-oriented way comes along as a key principle of VEJA. The founder's way of solving problems with regards to their production circle is, as Cyert and March (1963/1992) suggest, usually simple-minded and biased since they hardly ever look beyond their country of production, Brazil. (Paff, 2018)

### **Organizational Learning**

VEJA's co-founder Francois-Ghislain Morillion names an example of the firm's adaption of its goals, attention and searching rules in the process of producing plant-based sneakers. In the beginning, they offered vegan sneakers for a significantly higher price which resulted in low demand. Due to that experience, the company looked for other plant-based production materials to offer a cheaper product and to maintain the balance between the goals of producing sustainably and achieving good sales numbers. (Schnuck, 2017)

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## **II. Creative Destruction**



# **Digitalization of Education: How Simpleclub Redefined Learning**

*Celia Maria Castillo*

## **Digitalization in the 21st Century**

The 21st century is often referred to as the digital century. The massive digitalization allowed the switch from analog processes to digital ones without necessarily changing the process itself nor the outcome. An example to clarify this would be the change from paper to email which makes processes easier and more convenient. Besides improving existing processes this change allows to redefine them and to deliver values in new ways (walkme, 2020).

## **Digitalization in the Business World**

The digitalization affects the business world in many aspects. Work itself became more elastic because the access to the required data isn't chained to a specific office anymore. As a result of this development the work schedule can get adjusted around personal needs. The switch from analog to digital processes allows companies to work more efficiently, faster, and cheaper. But the use of technology doesn't just innovate and redefine existing processes and products but can create and deliver new values to the customer (walkme, 2020).

Overall, these companies use digital technologies to drive growth, revenue, and efficiency in ways traditional companies cannot by combining digital and physical resources and with that being able to create competitive edges.

Therefore, a big winner of this change are startups. Innovative ideas allow these small businesses to disrupt, transform and even dominate well-established industries (walkme, 2020).

These phenomena of reinvention and creation of newer, better products for customers that makes "old" companies unnecessary is called "creative destruction" and it is a theory of economic innovation invented by the Austrian economist Joseph Schumpeter in 1979 who called it "the essential fact about capitalism" (Schumpeter J.A. 1979, p.83).

## **Creative Destruction**

Schumpeter claims "that in dealing with capitalism we are dealing with an evolutionary process" (Schumpeter, 1979, p.82) and therefore capitalism is never stationary and always evolving in the



form of new markets and new products. So instead of statistical mathematical models Schumpeter saw the economic market as an organic and dynamic process always being reshaped and replaced by new ideas so “Stabilized capitalism is a contradiction in terms” (Schumpeter, 1939, p.405). Capitalism is by nature a form of economic change that can never be stationary. The prime force is the constant new invention of customer goods, production, and transportation inventions as well as new markets that get created, besides the fact that it takes place in a social and natural environment.

“Creative destruction” describes the process of replacing an existing idea by a new innovation, just like a digital business does with traditional ones if they have new and better possibilities and approaches for the customer. This changes the economic structure from within, dividing into losers who get replaced or destroyed by the winners with thriving new innovations.

### **Simpleclub as a Digital Company**

The German EdTech company Simpleclub marks its beginnings in 2011 by creating YouTube videos explaining math for their school friends (Söder & Söder, 2019, 9:20). Over the past years the two founders Alexander Giesecke and Nicolai Schork achieved to create one of the most used online learning platforms in Germany. Today the 2015 founded GmbH employs 100 employees and besides running eleven YouTube channels, managed to create an app containing more than 20 000 units of learning content, with even more content being added all the time (Saatkorn, 2021).

Nowadays millions of students in Germany know the short, animated videos that explain important and complex topics with easy demonstrations and funny relatable examples. Simpleclub brought education into the modern digital world and with that created a new and easy access to education for students. In December 2011 the first Youtube channel Thesimplemath was founded by the classmates followed by 10 further subject related channels including biology, chemistry as well as engineering. In 2017 they started to create video content in English to expand their community through America and India (von Buttlar, 2021, 12:35).

In 2016 the company released their own app using the freemium model just like other digital businesses such as Spotify do (von Buttlar, 2021, 12:45). Freemium is a business model in which companies offer a free version including basic or limited features as well as a premium version including more possibilities and features the user needs to pay for. In the free version of the app

the customer gets access to explanations and texts about several topics, in the paid membership those functions get expanded by more and deeper explanations, tasks, test exams and learning plans. Using the technical advantages we have today and incorporating them onto education the company counts around 40 000 app users today (von Buttlar, 21:00).

Since 2018 the company works completely remote, which gives the employees the possibility to work from wherever they want at whatever time they want. Besides that, there are no required work hours the team needs to complete. Instead of rules and regulations the founders focus on as much freedom and flexibility as possible. They explain their success with the fact that they have a very motivated team that wants to achieve the highest quality content possible out of self-motivation, so they are allowed to manage their time themselves as long as at the end the produced content meets their own and the companies' standards (Söder & Söder, 2019, 33:00).

In 2020 the company HV Holtzbrinck Ventures invested 2 million euro into the company to achieve the goal of containing learning material for all students from 5. grade to graduation as well as material for university students and extending their corporations with companies that offer training programs (*Watchlist 2021*, 2021).

Their main goals are to create deep long-lasting knowledge instead of superficial learning by heart the students forget right after their exam and to create a platform that allows a personalized way of learning. Besides that, the company aims to have a voice in the political decision-making process regarding education because of their big influence in this spectrum. Giesecke and Schork claim that education should be democratized so everybody should have the possibility to educate oneself further (von Buttlar, 2021, 18:00).

### **Simpleclub as an Example for Creative Destruction**

Schumpeters theory of creative destruction argues that in the economic world we have an organic and dynamic growth, and that new technologies and ideas are able to replace existing processes. This creative destruction divides the economic players into losers and winners of this change.

Simpleclub revolutionized education by connecting learning to the digital world with its new possibilities. So, if we apply this theory on Simpleclub and how they became one of the most famous internet platforms for education in Germany by innovating learning, we see a winner of this theory.

While conventional private tutoring is expensive and chained to fixed dates, Simpleclub grants everybody access to high quality education at any time from everywhere.

The company achieves to produce educational content explained on eye level, describing scientific constructs in a way you would do to a friend, so that it fits the students individual learning level by producing short and easy to understand videos and texts. Including jokes, young references, and pop culture language, Simpleclub tries to remove all the negative associations most students connect with learning (von Buttlar, 2021, 16:10).

Besides that, the company is able to create an easier access to specific content, since instead of searching through books and trying to understand complex definitions, Simpleclub allows the users to search for specific key terms, organize the content by subjects, overall topic or grade, a feature private tutoring cannot provide. Furthermore, students and teachers can get in contact immediately with the company via social media to ask questions, discuss topics and wish for specific content.

Digitalization of education created a new way of learning that fits better to the lifestyle of their target group the younger generations that grow up in this digital century and that way manages to support the education at school.

## **Conclusion**

The story of Simpleclub shows an perfect example for the process of creative destruction because of their innovative way to rethink education that provides many benefits for the customers and that is able to replace conventional private tutoring.

Even though the digitalization of education may create a new way of learning, Simpleclub did not replace education itself. The content they create is not supposed to replace the education students earn from the classroom but rather act as an additional support to help the students comprehend the topics discussed in class. The founders aim to make education more individual so teachers can focus more on pedagogical aspects in school.

In conclusion the EdTech company Simpleclub was able to create a new way to access high quality education for everybody at every time by digitizing education and with that innovated the idea of private tutoring.

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## The Netflix Effect

*Merve Dogu*

### Creative Destruction

The term ‘creative destruction’ was first coined by Austrian-American economist Joseph Schumpeter in his book *Capitalism, Socialism and Democracy* published in 1942. It describes the process of a constant revolution within an economic structure, wherein an old structure is destroyed and a new one is created (Schumpeter, Joseph A., 1942 *Capitalism, Socialism and Democracy*. London: Routledge, 1994 pp. 82–83). According to Schumpeter’s theory this process is an integral part of capitalism and a stationary form of capitalism can never be possible.

*“This stands in stark contrast with the static mathematical models of traditional economics. Equilibrium is no longer the end goal of market processes. Instead, many fluctuating dynamics are constantly reshaped or replaced by innovation and competition. As is implied by the word destruction, the process inevitably results in losers and winners. Producers and workers committed to the older technology will be left stranded. Entrepreneurs and workers in new technologies, meanwhile, will inevitably create disequilibrium and highlight new profit opportunities.” (Carol M. Kopp, June 23 2021, [investopedia.com/terms/c/createdestruction.asp](https://investopedia.com/terms/c/createdestruction.asp))*

“The essential point to grasp is that in dealing with capitalism we are dealing with an evolutionary process,” Schumpeter wrote (p. 82).

*“Society cannot reap the rewards of creative destruction without accepting that some individuals might be worse off, not just in the short term, but perhaps forever. At the same time, attempts to soften the harsher aspects of creative destruction by trying to preserve jobs or protect industries will lead to stagnation and decline, short-circuiting the march of progress. Schumpeter’s enduring term reminds us that capitalism’s pain and gain are inextricably linked. The process of creating new industries does not go forward without sweeping away the preexisting order.” (Richard Alm and W. Michael Cox, [econlib.org/library/Enc/CreativeDestruction.html](https://econlib.org/library/Enc/CreativeDestruction.html))*

Schumpeter’s book *Capitalism, Socialism and Democracy* was heavily influenced by *The Communist Manifesto* by Karl Marx and Friedrich Engels.

### Netflix

Netflix, Inc. is an American subscription streaming service and production company. It was founded in by Marc Randolph and Reed Hastings in Scotts Valley, California on August 29, 1997 as a mail based-rental business. Before founding Netflix, Hastings, a computer scientist (Hastings

Reed, December 1 2005, "How I Did It: Reed Hastings, Netflix") and Randolph, a marketing director (Xavier Jon, January 9 2014, "Netflix's first CEO on Reed Hastings and how the company really got started Executive of the Year 2013") both worked for Pure Atria, a Rational Software Corporation in Sunnyvale, California. In 1997, while carpooling between their homes in Santa Cruz, California and Pure Atria's headquarters in Sunnyvale, the two founders came up with the idea of renting DVDs by mail (Keating Gina, October 11 2012, *Netflixed: The Epic Battle for America's Eyeballs*). They tested their idea by mailing a DVD to Hastings's house in Santa Cruz (Xavier Jon, January 9 2014, "Netflix's first CEO on Reed Hastings and how the company really got started Executive of the Year 2013"). After a successful delivery, they decided to launch the world's first online DVD-rental store, with only 30 employees and 925 titles available, almost the entire catalogue of DVDs at the time (Rodriguez Ashley, April 14 2018, "Early images of Netflix.com show how far the service has come in its 20 years"; Barrett Brian, Parham Jason, Raftery Brian, Rubin Peter, Watercutter Angela, August 2 2017, "Netflix Is Turning 20—But Its Birthday Doesn't Matter"). After dropping their initial per-rental model for each DVD in 2000 and introducing a monthly subscription concept in 1999, the company focused on business model of flat-fee unlimited rentals without due dates, late fees, shipping and handling fees, or per-title rental fees (O'Brie Jeffrey M., December 1 2002, "The Netflix Effect"; Huddleston Jr. Tom, September 22 2020, "Netflix didn't kill Blockbuster — how Netflix almost lost the movie rental wars").

In January 2007, a streaming media service was launched and video on demand via the Internet was introduced. At that time the company only had 1,000 films available for streaming, compared to 70,000 available on DVD ("Netflix offers streaming movies to subscribers", January 16 2007). In January 2008, all rental-disc subscribers became entitled to unlimited streaming at no additional cost. This change came in a response to the introduction of Hulu and to Apple's new video-rental services ("Netflix to lift limits on streaming movies". Los Angeles Daily News. Associated Press, January 14 2008). In November 2010, Netflix began offering a standalone streaming service separate from DVD rentals (Arango Tim, Carr David, November 25 2010, "Netflix's Move onto the Web Stirs Rivalries". The New York Times). In May 2011, Netflix's streaming business became the largest source of Internet streaming traffic in North America, accounting for 30% of traffic during peak hours (Kang Cecilia, May 17 2011, "Netflix biggest driver of U.S. Internet traffic, puts spotlight on broadband pricing"). On January 4, 2012, Netflix started its expansion to Europe, launching in the United Kingdom and Ireland ("Netflix launches UK film and TV

streaming service". BBC News, January 9, 2012). In January 2016, Netflix announced a major international expansion of its service into 130 additional countries. It then had become available worldwide except China, Syria, North Korea and Crimea (Minaya Ezequiel, Sharma Amol, "Netflix Expands to 190 Countries". The Wall Street Journal). As of 2021 the Netflix membership surpasses 200 million (Netflix.com, January 2022)

## **“The Netflix Effect”**

Netflix is a great example for creative destruction. After starting out as an online DVD rental-store, Netflix was able to change its course along the way by taking advantage of the quickly evolving internet technology and thus becoming one of the largest streaming services currently available. Netflix has been so disruptive to existing industries, that its impact is now being referred to by some as the “Netflix Effect.” (Mark J. Perry, [aei.org/carpe-diem/the-netflix-effect-is-an-excellent-example-of-creative-destruction](http://aei.org/carpe-diem/the-netflix-effect-is-an-excellent-example-of-creative-destruction)) Among the industries Netflix has challenged are the Video Tape and Disc Rental Industry, almost driving these industries into extinction along with companies like Blockbuster, a provider of home movie rental services. After the industry peaked in 1999 with more than 170000 US employees, it decreased by almost 93% to about 11000 US employees in 2015 (<https://www.aei.org/wp-content/uploads/2015/08/videojobs.jpg?x91208>).

Another industry that is still heavily challenged by Netflix and has not yet gone extinct are the traditional media companies.

*“After challenging Blockbuster, which filed for bankruptcy in 2010 and was subsequently acquired by Dish Network at auction in 2011, Netflix (along with other online viewing platforms like Hulu, Amazon and Apple TV) is now challenging cable networks, traditional network TV channels, and pay-tv services. The “Netflix Effect” can be seen in the chart above that compares the year-to-date stock returns for Netflix (up by 157%) to Disney, which owns the cable networks ESPN, Disney Channels and ABC Family (+15%), CBS (-6.3%), Time-Warner, which owns CNN, HBO and Cinemax (-21.5%), and FOX (-22.75%).” (Mark J. Perry, [aei.org/carpe-diem/the-netflix-effect-is-an-excellent-example-of-creative-destruction](http://aei.org/carpe-diem/the-netflix-effect-is-an-excellent-example-of-creative-destruction))*

*“Netflix has established a good reputation and has not been put out of business due to other competitors. No one has been able to be creative and find new ways to make online movie and tv show streaming more efficient than it already is. If that happens, then Netflix and other online streaming services will be in danger. This process keeps repeating and will always repeat until the end of time.” (URSULINEECON, December 7 2019, [bearmarketreview.wordpress.com/2019/12/07/creative-destruction-and-netflix](http://bearmarketreview.wordpress.com/2019/12/07/creative-destruction-and-netflix))*



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# Airbnb – A Success Story of Creative Destruction?

*Moritz Alexander Frank*

## Introduction

This chapter takes a closer look at creative destruction, which is an approach about economic progress through destruction. The aim of this chapter is to apply the principle of creative destruction to Airbnb, a billion-dollar company, which has built a business based on the sharing economy that competes with the hotel industry.

## The Sharing Economy

The sharing economy has gained a lot of popularity in recent years. This is characterized by both great euphoria and harsh criticism. A general definition of the sharing economy does not yet exist, as it is a very broad term.

To simplify matters for the following chapter, this chapter will concentrate on one definition according to Anderson. He claims peer-to-peer sharing as the core of the sharing economy, where private individuals act either as peer providers or as peer consumers of certain resources (Scholl et al., 2015). Intermediaries play an important role in coordinating and bringing together these two parties. They appear in a variety of forms, but often as online communication platforms. An important component of the sharing economy is the trust of the individual participants, keeping in mind that private individuals can earn money with property without having to bear high costs. Peer-to-peer sharing also exists on a non-monetary level, so old-fashioned bartering is also gaining relevance again (Scholl et al., 2015).

## The Principle of Creative Destruction

The principle of creative destruction was coined by Joseph Schumpeter and describes the process of a constantly changing economy through innovation. More innovative and advanced products and production mechanisms are replacing outdated ones (Schumpeter, 1979). The aim is to generate more comfort for the consumer, to produce more efficiently and to create the highest possible sales. Creative destruction is an essential part of economic growth and contributes significantly to the dynamics of the economy, which is why creative destruction is often labeled

as the primary engine of growth in modern economics (Harding & Lucyshyn, 2018). The economic dynamism also occurs “due to the fact that economic life goes on in a social and natural environment which changes” (Schumpeter, 1979, p.82), making a static economy therefore unimaginable.

Replacing outdated companies and methods results in a high turnover of jobs by creating enough space for new jobs through the destruction of old ones (Harding & Lucyshyn, 2018). Thus, ten percent of jobs are to be destroyed annually by creative destruction and replaced by jobs in more innovative sectors. As an essential tool of capitalism and the engine of the economy, creative destruction creates more space for new business ideas and entirely new industries. The principle of creative destruction is implemented by entrepreneurs. They create new markets, revolutionize existing ones and create new structures in the business world. One example of applied creative destruction is Airbnb.

## **Airbnb**

The American home rental platform Airbnb was founded in 2008 in San Francisco, California, by Brian Chesky, Joe Gebbia and Nathan Blecharcky. Their business model based on the sharing economy enables private individuals to rent out their property for a short period of time. Over five million listed properties in more than 220 countries and 100,000 cities make Airbnb the world's largest online affirmative accommodation travel agency (Folger, 2021). During the last few years, Airbnb has evolved its peer-to-peer model to give hosts the tech tools they need to run a smooth, sophisticated operation (Scholl et al., 2015). At this point, over 40 percent of all listings are offered via instant booking on Airbnb. In addition to the tech tools, hosts can offer their properties for comparatively low fees of a maximum of 15 percent, due the absence of additional middlemen and the associated lower expenses for the shortened value chain (Harding & Lucyshyn, 2018). By entering other sectors such as travel guiding or business travel ready listings, Airbnb is trying to expand its operations further. Airbnb has become a multi-billion corporation in recent years, with experts estimating its market value above \$75 billion (Lock, 2021). In 2020, they exceeded a revenue of \$3,378 billion for the first time in the company's history (Curry, 2022). Airbnb achieved a steady growth rate over the past years and as it continues to grow and innovate, it poses an increasing threat to the hotel industry.

## Applying Creative Destruction to Airbnb

Airbnb, as well as Uber, is emblematic for the sharing economy and creative destruction. As mentioned before, the short value chain of platforms like Airbnb makes it possible to offer lower prices. Maximum fees of 15 percent enable hosts to offer significantly more lucrative listings than established hotels in the same area (Harding & Lucyshyn, 2018). This is partly due to the high running costs a hotel has, while Airbnb's peer providers do not have to bear such costs. This is further reinforced by the fact that both peer providers and peer consumers do not have to pay for Airbnb's services until they earn money themselves or book a property for their own use (Scholl et al., 2015). With the option of using the service free of charge and only having to pay money for the actual transactions, Airbnb has been able to build up a large customer base very quickly. The more lucrative pricing policy of shared homes also makes it possible for a larger number of people to travel at lower costs than the hotel industry does (Harding & Lucyshyn, 2018). As a result, Airbnb is able to utilize network effects that attract a larger number of customers and hosts. This is confirmed by the large number of several million users. The remarkable growth of the billion-dollar company around the globe into thousands of cities has offered people a new way to generate money from their private property. Airbnb is challenging the status quo (Harding & Lucyshyn, 2018). Private households are now able to make as much money from short-term rentals as they would from a full-time rental. To reduce the exponential growth and influence of Airbnb, some cities have already imposed restrictions, for example, at certain locations apartments cannot be rented out all year round (Harding & Lucyshyn, 2018). A maximum limit of days on which rentals are allowed has been set. However, these restrictions only affect a small fraction of all listings. Some parties criticise such interventions. The general influence of the sharing economy is not as great as often claimed. Nevertheless, a form of disruption and destruction does exist. This should not be stopped by politics, as basic economic theories have shown us often before (Harding & Lucyshyn, 2018).

Another considerable advantage of Airbnb is the company's self-explanatory model. The process of booking and offering properties is designed to be playful, simple and quick. Especially the expansion of the peer-to-peer model, which now also offers hosts the technical tools to handle the booking processes via Airbnb and to reserve flats, makes Airbnb even more competitive. Still, the number of hotel rooms outweighs Airbnb listings many times, as can be clearly seen in the example

of Canada. This shows that hotel rooms in Canada are still outnumbering Airbnb units' listings at a rate of 6.5 to one (Harding & Lucyshyn, 2018).

The big risk of a platform like Airbnb is that it is no longer needed to act as a middleman. The peer-to-peer business would function without a third party as an intermediary. Even though the low costs and the large network that Airbnb has been able to build up over the last few years lead us to assume that the platform will continue to grow.

The question of Airbnb's real influence on the hotel industry remains highly controversial. However, experts say it is significantly less than some organisations claim. A Texas study by Zervas, Proserpio and Byres found that if listings on Airbnb increase by one per cent, this has a negative impact of 0.05 per cent on hotel profits (Harding & Lucyshyn, 2018). Still sharp increases in listings have a significant negative impact on the hotel industry. However, Airbnb should not be seen as such an immediate threat to the hotel industry, because hotels have been pushed to innovate in order to survive (Harding & Lucyshyn, 2018).

Relating creative destruction to the general model of the sharing economy, it is noticeable that it does not fall into the typical industries affected by creative destruction. It is unclear which industries can be replaced by the sharing economy (Scholl et al., 2015). Neither the hotel industry nor other industries and their processes have been destroyed. They have been forced to adapt to the new circumstances and become more innovative (Scholl et al., 2015). The industry became more digitalized and now offers their services through social networks. In most cases, sharing will continue to serve only as an alternative or as a complementing extension to existing industries (Scholl et al., 2015).

## **Conclusion**

In summary, Airbnb's innovation of the established hotel industry has led to its incredible success. The question of whether this is creative destruction or not is debatable as the traditional competitor still exists. In the course of this chapter, it could be shown that Airbnb was able to change an entire industry with the concept of the sharing economy and their peer-to-peer model. Thus, one can at least speak of creative disruption which had a significant impact on the hotel business. As this innovation of Airbnb will most likely not lead to the destruction of the hotel industry and will serve more as an alternative and strong competitor the term of creative disruption fits better.

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# The iPhone: How Apple Changed an Entire Industry

*Florian Franz*

## Creative Destruction

Creative destruction is an economic concept developed by Joseph Schumpeter. He describes it in his book “Capitalism, Socialism and Democracy”, which was first published in 1942. It can be defined as an “incessant product and process innovation mechanism by which new production units replace outdated ones”. (Caballero, 2008) The capitalist market will never stand still and will always be evolving with improved or completely new products. These new products will always continue to drive out worse ones, which strengthens innovation in the market (Adler, 2019)

While creative destruction has its downsides like lost jobs, ruined companies and vanishing industries, it brings over time advantages like higher living standards, better jobs, or just better products overall. (Alm & Cox, n.d.) Creative destruction is mainly driven by revolutionary products, services, or production processes. Examples can be The Model T made by Ford, which replaced its predecessors or the evolution of the music industry. While, with the spread of the internet to the public, physical CDs were replaced by music downloads. But the amount of Music downloads decreases from year to year since its peak, online music streaming took over. While streaming services offer a higher standard of living, they are criticized because of the way they pay the artists. (Spaniel & Aparicio, 2020)

## Applying the Concept

### *The Smartphone Market before the iPhone*

Before the launch of the iPhone, in the year 2006, the phone market was dominated by big companies like Nokia, RIM, Motorola, or Sony Ericsson. Nokia had a worldwide market share of around 50 percent. RIM with its Phone brand “Blackberry” had a market share of around 8 percent. (Canalys, 2007) These phones mainly relied on fixed keyboards on the bottom and a screen on the top. While Nokia still had the biggest market share, it was decreasing from quarter to quarter due to the growing popularity of Blackberry and other competitors. (Reardon, 2009)



### *The Introduction of the iPhone*

On the 9<sup>th</sup> of January 2007 Steve Jobs, the CEO of Apple at that time, unveiled the iPhone at the Macworld convention in San Francisco. Jobs himself called the iPhone an “revolutionary and magical product” (History.com, 2012) Its main difference from phones of that time was that Apple ditched the fixed keyboard for a display that stretches over the whole front of the phone apart from one single button. The keyboard appears when you need it and disappears when u don’t, so Jobs.

This decision started a revolution in the mobile phone market and the outcome is still visible today.

### *The Market after the first iPhone*

While the first iPhone was an overall success, it only sold around 1.39 million units. While the sales numbers were relatively low in the first year, with the introduction of the app-store in 2008, Apple sold 11.63 million iPhones in 2008 and around 72 million in 2011. The iPhone and the concept of a smartphone without a keyboard and different apps to install gained traction, and following, many competitors to the iPhone showed up on the market.

Google built a mobile operating system called Android and the first phone to ship with it was the HTC Dream, also known as the T-Mobile 1, released in 2008. While the HTC Dream also featured a big screen on the front of the phone, it also had a keyboard hidden underneath it for those who couldn’t live without it. While the phone itself had mixed reviews overall, with the inclusion of the Android Marketplace, it helped Android to gain 6 percent market share in the US smartphone market ranking it fourth place behind iPhone OS with 50 percent, Blackberry RIM OS with 22 percent and Windows Mobile OS with 11 percent. (Cragg, 2021). In the year 2009, Samsung released their own touch screen phone with the Android operating system called the I7500. While the operating systems made by Apple and Google gained traction, other operating systems failed to grow. Today, the only two relevant operating systems are Android with a worldwide market share of around 73 percent and iPhone OS (later renamed to IOS) with around 26 percent. (Statista, Statista, 2022)

## Reactions to the iPhone and their Outcome

There were many reactions to the first iPhone from all over the world. While some people doubted the iPhone, others saw the future in it. I will elaborate on two quite different reactions to Apples unveiling and the results that followed.

### *Microsoft*

The Microsoft CEO at that time was Steve Ballmer. In an interview with USA Today he was laughing at the iPhone and saying that it had no chance to gain any market share. (Strange, 2007)

He thought it was too expensive and wouldn't attract business customers because it had no fixed keyboard. (Reisinger, 2017) A polarizing statement, to which he later admitted he was wrong about. He admitted that Microsoft would have moved in the mobile hardware business faster and that they shouldn't have relied on what they had in the PC market to just reproduce itself in the world of mobile handsets. (Hardwick, 2016) The outcome of Microsoft Mobile is well described by Viraj Gaur in an article for the magazine the week (Gaur, 2018) by starting to work on their own mobile operating system in 2008. They launched Windows Phone 7 in 2010. It partnered with Nokia in 2011 by releasing Nokia's Lumia series of phones running a Windows operating system.

Microsoft even bought Nokia's entire phone division in September 2013. Although Microsoft managed to gain some market share it never really made it big due to a lack of third-party involvement. The competition of Apple and Google was too strong.

Finally, in December of 2019 Microsoft completely shuts down Windows for Mobile. It is recommended "that customers move to a supported Android or iOS device" (Mudrakola, 2019)

### *Google*

Quite opposite to Ballmer, Google saw the strengths of the iPhone. A former Google engineer told the Atlantic "As a consumer I was blown away. I wanted one immediately. But as a Google engineer, I thought we were going to have to start over." (Vogelstein, 2013) Google then went on and released their Android mobile software on many different devices. The HTC Dream was the first device to run an Android operating system. In 2009, Samsung announced its first Android based Smartphone in 2009 followed by Sony's first Android based smartphone in 2010. Android

overtook IOS in worldwide market share of mobile operating systems in May of 2012 and has a market share of around 73 percent today. (Statista, Statista, 2022)

## **What can Future CEOs and Entrepreneurs Learn from this Event?**

From this event CEOs and Entrepreneurs can learn that you should always be open for change in the market. You must be able to make up strategies to react to change in the market and not to rely on old products and success in the past. The iPhone is a great example of big companies relying on their old success and therefore stopping to innovate. Although Microsoft succeeded in other areas, it shut down their phone business in 2019. In January of 2022 Blackberry also stopped supporting its own operating system. “Despite being one of the first smartphones, it failed to innovate and became complacent in how the smartphone market was changing.” (Appolonia, Nixdorf, & Leslie, 2022) The first iPhone shaped the smartphone-market in a way, that it has more similarities with today’s smartphones then with phones released just months before it. Today, Apple is the most valuable company worldwide with a valuation of nearly \$3 trillion (Starling, 2022) and according to Apple, the iPhone still made up 57,8 percent of their net sales in the last quarter of 2021. (Apple, 2022)

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# Creative Destruction for a Sustainable Transformation in Business

*Navin Hans Robin Gauß*

## Introduction

### *The Climate Crisis and its Effects on the Economy*

Global temperatures are rising. According to the United Nations “we are at least one degree Celsius above preindustrial levels” (2020) with an increasing trend. Caused by the burning of fossil fuels this phenomenon is being discussed as the global climate crisis. Consequently, for example increasing forest fires and melting glaciers then again cause horrendous problems like the destruction of natural habitats or decreasing food and water security (United Nations, 2020). Besides other big changes in the world economy (e.g. globalization, digitalization and learning to deal with a global pandemic to only name a few) one must acknowledge that the climate crisis is one of, if not the greatest challenge to be tackled in a global and interdisciplinary manner today. Since the world economy has largely contributed to the emergence of climate change, especially managers and entrepreneurs are challenged to find ways to cope with this global problem. Differently put it is about reshaping the capitalist economy to create an “economic development that is consistent with long-term stable environmental quality and resource availability” (Mulder & Van Den Bergh, 2001, p. 110). An environmentally sustainable transformation is not only needed because of each and everyone’s social responsibilities but it is also in the managers interest of profit maximization. This holds because on one hand some fields of business or their required resources are being destroyed by climate change and on the other hand because the consumer’s awareness in terms of sustainability is rising. With the increasing focus on a sustainable transformation leading the way it is – looking back at the last decades in the economic sector – inevitable to see that the business world is shifting. One can however state that the current world economy is far away from a sustainable market and the business sector still has a long way to go. If action against climate change is to be continued how it is done today it will be impossible to comply with the goals the world community has set itself (e.g. see ‘The Paris Agreement’).

## Sustainable Creative Destruction

### *An Introduction to Creative Destruction*

To further elaborate on one solution approach, it is inevitable to understand the economic theory of Creative Destruction by Joseph A. Schumpeter. In the following I will reproduce what Schumpeter described as Creative Destruction in the book “Capitalism, Socialism and Society” in 1943.

As a starting point he assumes that “in dealing with capitalism we are dealing with an evolutionary process” (Schumpeter, 1976, p. 82). This holds true because when talking about capitalism we are not dealing with a static concept but a system that is constantly influenced by its always changing environment. Schumpeter here refers to social and natural influencing factors as planet earth and its ecosystems as well as human beings and their actions. The theory of Creative Destruction furthermore suggests that the evolutionary character of capitalism requires organizations to incessantly question, rethink and destroy old business practices and create new ones in order to fulfill their main objective of profit maximization. In addition, it is pointed out that comprehensive changes within the environment “often condition industrial change” (Schumpeter, 1976, p. 83).

Summing up, according to Schumpeter long-standing arrangements and assumptions need to be destroyed every now and then to free up resources to enable innovation. In times of big developments or changes like wars, revolutions etc. this is particularly important. Even if Schumpeter came up with the theory 46 years ago it still applies today and the global developments can now be referred to as megatrends like globalization or digitalization and – of course – global climate change.

### *Creative Destruction and the Climate Crisis*

In what follows, I will discuss the connection between finding solutions for the global climate crisis and Creative Destruction.

In the late 1980s and early 1990s “corporate »greening« initiatives [...] were important first steps” (Hart, 2007, p. 14) to raise the business sphere’s general awareness of sustainability. For the first time these issues were not treated like expensive burdens but seen as opportunities to improve performance (Hart, 2007, p. 14). However, the applied changes were rather incremental since the

overarching goal was not to restructure business practices as a whole but to minimize harm created to the firm's environment. William McDonough and Michael Braungart refer to this as the difference between eco-efficiency and eco-effectiveness. They aptly describe this concept as “working on the right things [...] instead of making the wrong things less bad” (McDonough & Braungart, 2002, p. 76). Given the current situation one can see that the undertaken actions are still very much insufficient and a fundamental shift is needed to assure “the current generation to meet its needs without compromising the ability of future generations to meet theirs” (Hart & Milstein, 1999, p. 24). To get from eco-efficiency to eco-effectiveness meaning to start to address the fundamental underlying problems I therefore argue that action is required to reconsider established structures within companies. The application of Creative Destruction provides one great possibility to do so and Hart states that the challenge of global sustainability has induced the application of this theory already (1999, p. 26). Subsequently, it is about the destruction of long-standing arrangements to establish a radical new way of thinking in an environmentally friendly manner and the translation into action by the incorporation of new business strategies (in the following I will refer to this practice as ‘Sustainable Creative Destruction’). Managers furthermore must acknowledge that the implementation of Sustainable Creative Destruction also provides a great business opportunity. “In so doing, they would outperform their competitors in today's businesses and, even more important, outrun them in tomorrow's technologies and markets” (Hart, 2007, p. 16). At this point I want to highlight that – in spite of the just mentioned – this suggestion is connected to taking risks and is not suitable for every business. A change in this or in similar form will however most likely become inevitable for most companies in the nearer future be it because of regulations or social pressure.

As we have now discussed, Sustainable Creative Destruction provides a great tool to truly contribute to tackling one of the greatest challenges of our time – global climate change – while at the same time obviating future risks, grasping arising opportunities in the current market and strengthening business positions.

### *Sustainable Creative Destruction and aware\_ The Platform*

Given the current climate crisis and the urge to react to it as an organization slowly but surely more and more firms are considering to restructure their business practices to comply with a more sustainable way of thinking. Helping them succeed the Berlin-based sustainability startup aware\_



The Platform created Germany's first-ever sustainability platform ([www.aware-theplatform.com](http://www.aware-theplatform.com)). Co-Founder and Co-CEO of aware\_ Lena Schrum talked to me about the company's practices and goals in an interview in January 2022 on which my following evaluation is mostly based on.

With the goal to make sustainability common sense the Startup aware\_ was founded in 2019 by Kim Fischer and Lena Schrum. They discovered the problem that a lot of organizations were struggling to find ways to implement more sustainable business practices into the given structures. The two founders made solving this problem their dedication and decided to use their expertise from their former careers to give something back to the planet. As Lena Schrum told me: "at aware\_ it is all about guiding corporations to help them reach their sustainability goals" (personal communication, January 26, 2022). The company sees the climate crisis as a global and industry-independent problem that can only be solved by collectively working on finding solutions in a holistic way and therefore provides a platform for networking, education and consulting. aware\_'s concept tries to answer the questions: "Where can organizations across-industries meet to jointly work on a more sustainable future?", "Where to find further training for employees regarding sustainability?" and "How to solve specific sustainability problems within organizations?" (L. Schrum, personal communication, January 26, 2022).

In June 2021 aware\_ received their first seed investment and was therefore then able to build up a genuine team and start their business. The startup now "brings together the right players to find solutions collaboratively" (L. Schrum, personal communication, January 26, 2022). Since there are great risks when applying Sustainable Creative Destruction to one's organization, the Berlin-based company helps to successfully put this practice into action. aware\_ provides guidelines and consultation to make sure the transformation works out without problems and connects organizations to allow them to share associated expertise and experience.

Consequently, aware\_ did not actively implement the concept of Sustainable Creative Destruction but acknowledges its potential and helps other firms to successfully use it for changing the business sphere for the better.

## Summary

As this chapter shows by considering the current climate crisis, respectively explaining and evaluating the importance of the theory of Creative Destruction and exemplary applying the given

concept to the startup aware\_ The Platform, a fundamental shift towards a more sustainable economy is urgently needed. The above discussed concept of Sustainable Creative Destruction provides a possible solution to do so. By offering guidance and a platform for solution exchange aware\_ makes perfectly use of this concept in order to put sustainability into a greater focus.

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# **The Influence of Creative Destruction Examined at the Practical Example of Volkswagen**

*Bruno Glöckner*

## **Investigation of the Concept**

Creative Destruction is an economic concept of constant innovation through modernization and destruction of existing products, company's or business models introduced by Joseph Schumpeter according to (Ricardo J. Caballero). By this, the economy is getting revolutionized from within on a recurring basis, according to Schumpeter who was a political economist in the first half of the 20th century. As stated in Schumpeter's theory which is focusing on a constant development of the capitalist economic system different intra-economic changes take place which led to renewal (Wörle, 2021). According to his theory „long standing practices, procedures, products or services are followed by more innovative, disruptive ones.“, which basically says that capitalism requires a constant process of economic rise and destruction to enable development (Youmatter.world) In the Manner of this statement, the process of industrial innovation revolutionizes economic structures from within. To free up the tied resources within long standing arrangements and companies, they must be destroyed or forced to change drastically, and the resources need to be deployed for innovation to maintain a solid future for an enterprise. (Kopp, 2021). In the following, innovation and new technique can be deployed which enables the economy to grow from scratch and build up again from the destroyed old markets which stuck to old methods, business models, services or products. According to Schumpeter, Creative Destruction is the driving force of capitalism. The concept ensures that constant wealth can be generated through sustainable growth and innovation flow. „The New“ according to Schumpeter in his book „Capitalism, Socialism and Democracy“ is enabling radical and dynamic development (Wörle, 2021). A large number of companies are sticking to old business by mistake and getting erased. (Gino, Staats, 2015). Massive job loss events can be described as one sign of existing Creative destruction in the economy. As per (Davis, Haltiwanger, Schuh, 1996) 10% of the current existing Jobs in the United States didn't exist one year before and will not exist one year afterwards., Job creation and destruction flows are large, ongoing, and persistent factors in the evolution of economy (Davis, Haltiwanger, Schuh, 1996). Job loss and recreation is the major tool for the economy to constantly

upgrades its technology and needed labour allocation and can react on changing requirements by different situation on the market. According to Schumpeter himself, this reallocation of labour which is happening during a depression is an instrument to reposition the economy for the next growth phase: ‘depressions are not simply evils, which we might attempt to suppress, but ... forms of something which has to be done, namely, adjustment to ... change.’ (Schumpeter, 1934, p. 16).

## **Case Volkswagen**

The Wolfsburg based company Volkswagen AG is a German multinational automotive manufacturer. It was founded in 1937 by the German government. Volkswagen can be examined as a good case example for creative destruction in the economy since the car manufacturer is operating in a strongly contested market environment which is distributed in 153 countries with distributions sites for customers and constantly gets under pressure from economical fluctuations and innovations (Volkswagen AG). VW is depending on multiple different markets and economic systems. In 2008, VW finally became one of the top players in international car manufacturer market and entered the top 3 regarding total amount of sales by year (Web archive, 2008). To maintain this business wise important position, VW is facing constant challenges which they need to accomplish successfully in order to not get effected in a negative way. During these challenges, VW also used methods of unfair competition in order to equalize handicaps caused by antiquated technic. Furthermore, VW was not able to keep the pace of competitors regarding E- mobility.

## **Application of the Concept to the Case**

A major principle of Creative destruction is that due to new production units & technologies companies gain a business advantage which ultimately lead to the extinction of major competitors. VW is a good example for multiple ingredients of creative destruction in a major player in European economic history, which hit VW with a massive impact multiple times in the past.

Since VW relied too long on their old-fashioned business model of building currently popular cars including old techniques, they saw themselves unable to compete with other companies in a fair way. To maintain their top position, VW saw themselves forced to use forbidden techniques to manipulate the maximum allowed ejection of CO2 emissions in order to equalize the competitive

advantage from competitors which were able to develop advanced techniques. This disadvantage is a clear sign of the force which is set off by Creative destruction if a company is not willing to keep the pace of constant development and further technical innovation (Maydorn, 2016). Influence part of creative destruction was shown to the public in 2016, when electric mobility became more popular than forecasted by German automotive companies in general. Driven by the possibility of misinterpreting an essential trend, VW started a massive electric campaign in 2017 according to (Bönninghausen, 2017). Only by investing massive amount of capital accruals and putting a major part of the existing business assets with about 73 billion Euro investments for new technology at risk, VW tried to stop the negative trend regarding their product condition and the fact that they were not prepared for future needs of mobility consumers of tomorrow (Reichel, 2020). To be able to compete with the emerging electric car demand, VW was in need to build new plants & production sites. With the project “Trinity” which includes a whole new production site only determined for electric cars, VW is trying to mitigate the effects of creative destruction related to the loss of technical supremacy in an emerging business field, electric mobility (Menzel, 2021). This extern pressure can be seen as one major part of creative destruction in general. Referring to Schumpeter theory of Job loss and recreation within the economy, VW is also using this method to reallocate current jobs on a constant basis (Davis, Haltiwanger, Schuh, 1996). In particular, referring to a so called “future package”, VW saw themselves forced to reduce total of 23.000 Jobs in the company related to the old business model of petrol powered cars (SHZ, 2016). In opposition to this, VW decided to create total of 9.000 new jobs, directly connected to the new operating fields as electric mobility and intelligent computer systems (Buchenau, Menzel, Specht, 2020). This reallocation of jobs by economic necessities shows another time the influence of creative destruction on business decisions of companies, in this case VW. The mentioned examples of influence of creative destruction into a major company in Germany shows clearly how Schumpeter’s theory is influencing the daily life of modern society, even if the majority of the people is not aware of this situation.

## Reflections

After applying the theory of Creative destruction on the case of Volkswagen, it can be seen that they key elements of creative Destruction are having a major influence on VW. Main points of creative destruction, the incessant product and process innovation mechanism by which new

production units replace outdated ones and the reallocation of needed labour force can be found in the case of Volkswagen.

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# The Theory of Creative Destruction Applied to V-Line

*Antonia Greve*

## Introduction

The destruction and reorganization of economic structures also known as *Creative Destruction* are important mechanisms of management and can be detected in many companies. To what extent can these features be found in V-Line?

## V-Line

V-Line took several turns in history before it has become to what it stands for now: a renowned supplier for spare parts located near Sehnde, Hannover region, Lower Saxony, Germany. Nevertheless, the person standing behind it from the beginning has never changed – Detlef Daues. It started with the uprising of Arabic infrastructure in the '70s (manager magazine, 2012) when spare parts showed their importance after delivering ready-for-usage machines but no one thinking about possible technical failures. Seeing his chance, Daues asked his parents for a loan and founded the Varioline trading company in the year 1979. Its object was the supply of spare parts for the industrial plant in USSR and Saudi Arabia. (V-Line, 2021). Founding “V-Line USA”, establishing important business relationships and erecting the warehouse in Sehnde, Daues decided to establish a spin-off with a few colleagues and implements, as he says, “a dream to participate in the boom of the Middle East” (V-Line, 2021). The goal was to make their connections as valuable as possible by forming a “relation between manufacturers and industrial plants through convenience, relationship, resources and fair pricing” (V-Line, 2021). Daues and his team pictured that by choosing a puzzle as a logo, with a blue interface mapping V-Line. Specializing in delivering spare parts with an easy warehouse system, managed custom clearance and exact delivery date, his firm is nowadays crucial for the success of firms all over the world. Saudi Arabia, but also VW-Mexico and General Motors in Thailand are relying on his corporation (manager magazine, 2012) and he built up branches in Saudi-Arabia, Mexico, the USA, Brazil, China. Detlef Daues’ success was rewarded by the accounting firm *Ernst & Young* with the decoration of being “Entrepreneur of the Year” in 2012 (manager magazine). On his way to global success, Detlef Daues builds further knowledge by attending the OPM 26-class at the Harvard Business School in Boston/USA in 1995, graduating in 1998 (V-Line, 2021). This program stands for Owner/ President Management and is

designed for Managers and Entrepreneurs seeking to gain inspiration, leadership growth, and advance their company's agenda. Another key benefit pointed out by the Harvard Business School in this program, is to "capitalize on disruptive innovation and sustain enterprise success" (Harvard Business School, 2022). Parallels can be taken from that approach to the famous management theory, *Creative Destruction*, conceptualized by Joseph Alois Schumpeter.

## **Creative Destruction**

J. A. Schumpeter's (1853-1950) work stands for the idea of an innovative entrepreneur and cannot be left out of mind when talking about entrepreneurship. With his famous theory of *Creative Destruction* Schumpeter outlined that the economy is under a never-ending process of economic and social change where old systems, technologies and thinking are destroyed by the new (Schumpeter, 1994). To understand his process of becoming an economist and building up a framework of theories and knowledge students and economists are learning and using until today, one must take a closer look into his book "Capitalism, Socialism and Democracy". Graduating school and beginning university with the thought of one day becoming an important economist, Schumpeter was ought to fulfill his vision as he is nowadays regarded as one of the most renowned economists of the twentieth century. And he had without a doubt a multifaceted way of life with many interests and influences. Schumpeter critically bases his work on Karl Marx, whose theory of *Marxism* and the unstableness of capitalism leading to destruction he was confronted with already in university (Schumpeter, 1994). Therefore, Marx's conceptions provided him, as well as many of his contemporaries, with important headwords and made him question or adapt certain dynamics. One of his main themes in "Capitalism, Socialism, and Democracy" can be brought into perspective with *Creative Destruction*. It is that capitalism will undo itself ultimately through its success since it is also an evolutionary process. Unlike what Karl Marx stated a long time ago, capitalism is unstable – which is why it works; it will drive the economy forward. J.A. Schumpeter wonders why many are not able to grasp it, even though Karl Marx emphasized it already a long time ago (Schumpeter, 1994). Capitalism is by nature a form or a method of economic change, it never is and never can be stationary. It is not the economic life that by its change alters the data of economic activity that primarily moves the capitalist process. Instead, it is the fundamental impulse coming from new customer's goods, new methods of production or transportation, new markets,

new forms of industrial organizations businesses create that “keeps the capitalist engine going and is ought to entail evolution and changes” (Schumpeter, 1994, page 82/83).

Why are firms so firm in their beliefs and take an inefficient approach when it comes to dealing with capitalism and it creating and destroying existing structures in a natural and unstoppable way? The essential fact is that firms are prevented from changes by dealing wrongly with situations that are sure to change presently, “as an attempt [...] to keep on their feet, on ground that is slipping away from under them” (Schumpeter, 1994, page 84). Nevertheless, those who adapt fast gain a competitive edge.

## **Creative Destruction Applied to V-Line**

In the following, many references are taken from an intense exchange and discussion with the CEO Detlef Daues.

*Creative Destruction* within V-Line can be seen when looking at the development of the industrialization of emerging countries. With the uprising infrastructure Original Equipment Manufacturers (OEM) started building complex machinery for complex technologies of industrial plants. Maintenance with the original spare parts and MRO (Maintenance, Repair and Operation) is essential to keep the recommended life cycle of such machinery; industrial plant owners must address OEMs. Since there are countless specifications and spare parts are often unjustifiably expensive, not everyone could afford the time or money to deal effectively with this complex task. Macroeconomically speaking, due to an expensive supply chain and cost pressure, many industrial plant owners faced serious problems; cheaper and fast solutions were needed. Through a creative impulse, Daues saw the necessity and possibility and transferred resources, which improved this process. Deals with OEMs or OPMs (Original Parts Manufacturer) that meet the same specification as the original part enable V-line to source the most economical part for the desired delivery date and choose the most economical transportation, delivered duty paid (DDP) to the final destination of the heavy industrial complex. The whole system offers extensive cost reduction opportunities. V-Line now provides over 200 people worldwide with jobs. *Creative Destruction* within V-Line is a never-ending process of change and fast adaption to new circumstances. Due to currently existing supply bottlenecks and complicated supply chains, there is a risk to V-Line’s procurement and fulfillment of service. The team still saw the chance for added value and created

a new purchase function by which customers could add items to their virtual shopping cart and even created jobs specified on expediting.

Nevertheless, *Creative Destruction* reaches its limits when facing prohibited features. Detlef Daues wanted to become the Amazon of MRO and create even more opportunities for his customers and partners. On the one hand, unfortunately, shopping portals such as Amazon are not yet used in corporate buying in the Arab Region, which is its most important market. To be valid, a transaction still requires an offer by the seller and an acceptance by the buyer, but there has not yet been found a possible integration of these portal purchases into their own complex systems. On the other hand, more open processes might entail less data protection and more cyber-attacks, which is why industrial plants hold on to their closed processes that exclude connections to open systems. Dr. Edward Jones explained it well in his TEDx Talk about Schumpeter's *Creative Destruction* when saying, that many politicians try to stop the economic change due to the reason that there will be winners but also losers, putting the system in danger (TEDx Talks, 2019). For instance, UBER is forbidden in many countries because Taxi drivers would not be able to withstand the competition (TEDx Talks, 2019). Consequently, Daues votes for a more open exchange of data. Transparency about the customers' demands, machinery wear and tear, as well as appropriate MRO inventory levels will give chances for better predictions and more business opportunities. Yet currently, the hesitation of corporate buying is too big of a barrier to be moving the Amazon-like b2c to b2b. Failing in his vision was not an option and he and his team still set up the *V-marketplace*, accessible at least for his customers in various other parts of the world.

## Conclusion

Dr. Jones pointed out in his TEDx Talk that one of Schumpeter's pleas is to not hold back from opportunities. Allowing the economy to work freely will automatically generate new ideas. This freedom will eventually drive the economy forward, lead to growth and allow states that are strong enough to tax the winners and compensate the losers to encourage them to do likewise (TEDx Talks, 2019). Concluding, *Creative Destruction* may not have been the defining factor for Daues's vision but can surely be detected when talking to him about his path and the changes his company V-Line went through. Starting as a market-connector but now acting along with his partners' and customers' demands, always adapting fast and taking a chance. Even trading across borders and

with different jurisdictions could not stop the vision. Creative geniuses of minds have no limits and it is interesting to see what the future holds for Daues and his teams' creativeness.

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## Jägermeister Goes Creative—Are They also Being Destructive?

Lara Jürgens

### Creative Destruction

*“Change is the law of life and those who look only to the past or present are certain to miss the future.” —John F. Kennedy*

Change is within everything. We as humans have developed since forever. So do businesses and our economy as well. The history of creative destruction goes back to the Austrian economist Joseph Schumpeter. The term first appeared in his book “Capitalism, Socialism and Democracy”, published in 1942 (Pettinger, T. 2018). For Schumpeter, creative destruction is the engine that drives capitalism, and without which neither progress, nor growth, nor sustainable prosperity will occur (Glück, O. 2022). Joseph Schumpeter concluded that markets and economies do not develop statically, but that a dynamic development takes place. Many companies try to bring predictability and stability into their structures and corporate management. Many people do not like change or are even afraid of it. According to Schumpeter, however, this can lead to a standstill and a standstill leads to a backlog. Many competing companies, such as startups, work with innovative ideas and more willingness to take risks. Thus, they are more successful than older and more established companies. These Companies should work reflectively and recognize where they can improve. A dynamic development means not only that they create new products or services, but also that they improve processes, methods, and procedures. Entrepreneurial action and thinking are based on analyzing risks and acting on them (Wörle, D. 2021).

Next, we come to an example of creative destruction. The record player has been replaced by cassettes and CDs. Meanwhile, consumers tend to use streaming services, such as Spotify and YouTube (Glück, O. 2022). These older devices have been almost completely replaced, as streaming services are often more convenient for users. The selection of music is higher and the cost is lower. In addition, it does not take up space. CD or cassette players can't keep up with that, and sales kept declining.

The principle of creative destruction is that the economy is always changing and therefore the economy must always renew itself to remain successful. Old markets are destroyed by new technologies, products, services, methods, or business models. At times old manufacturers are



pushed out of the market, but there are also companies that act quickly and adapt. Sometimes even their own companies use this strategy, forcing older products out of the market. Why should companies do this? The answer is quite simple: many companies pursue thereby a growth of the enterprise; they often create higher living standards and generate profit (Kopp, C. 2021).

## **Jägermeister as a Company**

The company was founded in 1878 in Wolfenbüttel by Wilhelm Mast as a vinegar factory and wine merchant. Curt Mast has transformed his parents' vinegar company into one of the largest liqueur companies in the world. The recipe has been around since 1934 and has hardly been revised since then. In the past, Jägermeister had a wide product portfolio. In 1964, however, Jägermeister decided that they wanted to focus on just one product and so they eliminated their other products from the market. Since 2013, the company has added other Jägermeister products to its product portfolio again as Jägermeister Manifest and Jägermeister Cold Brew Coffee (Eichel, M. 2022). One could assume that the company is a traditional family business. However, they became known for innovations early on: Jägermeister placed the logo on the jerseys of Eintracht Braunschweig in 1973. This was a strategy by the former managing director Günter Mast. He saw a lot of potential in it to be present on the soccer field as well. The DFB was not initially enthusiastic about Mast's idea, so Eintracht Braunschweig had to replace their logo with the Jägermeister logo. Before the game, it was measured out that the new logo would not go beyond the awarded size. As a result, Mast is considered the developer of the jersey advertising (Eichel, M. 2022). This was a revolution at the time. Today, sports without jersey advertising are almost unheard of. Thus, Jägermeister was already a step ahead of some companies, but this is not the only one.

Until the 1990s, Jägermeister was a drink that was drunk especially by hunters and older gentlemen. It was considered a digestive liquor. There were fewer and fewer older people drinking Jägermeister. Also due to the competition, such as Bacardi or Absolut Vodka, the consumption of Jägermeister decreased (Philipp und Keuntje GmbH, 2005). Therefore, sales have declined sharply. The company had to make a change in branding to attract a new target group and also not to lose the old one. For Jägermeister to remain competitive in the long run, they decided to change their brand image. And they were very successful at it. Nowadays, the drink is famous by almost all generations (>18). Jägermeister established itself in the party and event scene and was able to attract a new target group of young people between 18 and 39 - especially male. Jägermeister

developed sponsorships, promotions, event promotions and more to reach their new target group and stabilize their market position. However, the design of the bottle hardly changed so that they would not lose their already existing target group (Teuber, M. 2017).

In 2020, total sales amounted to 89.5 million 0.7l bottles (Eichel, M. 2022). Jägermeister exports to more than 100 countries worldwide and was the most valuable German spirits brand in 2015 (BrandFinance, 2015). Between 2002 and 2005, a sales increase of 24% was achieved in the food retail trade (Philipp und Keuntje GmbH, 2005). This success can be attributed to the different marketing strategies. Jägermeister has tried to appeal to as many people as possible and has therefore undertaken many measures. On the one hand, there was classic TV advertising and stands at events and promotions. However, they also came up with many new strategies. They sponsored young talents in the music scene and developed the Jägermeister Music Tour. To this day, they support young musicians around the world with programs such as JägerMusic Awards (in Russia) or Marktplatz (in Latin-America). The Jägermeister drop-in-concert was the first live concert via Digital Voice Assistant with the rapper Snoop Dogg. Jägermeister achieved many awards for this (Eichel, M. 2022). In January 2021, Jägermeister launched its first own international streetwear collection "BEST NIGHTS". The 12 pieces of clothing are meant to remind of the best nights with friends. With this, Jägermeister wanted to spread a positive message during the Corona Pandemic. One euro per order will be donated to the "United We Stream" initiative to support it during the Corona Pandemic (Eichel, M. 2022). Jägermeister likes to be different, fancy and innovative. Therefore, they are on many festivals with an impressive huge stag which has a size of 20 meters. As they described on their website, they offer good conditions and benefits to their employees. Thus, there is the Jägerdate. Through this, employees meet for lunch or coffee break through a random generator. In this way, employees from different areas get to know each other. Building a network is important at Jägermeister. Another option is a Jägermeister shared apartment. This "powerhouse" stands for dynamic and innovation. In addition, there is a coworking space called Wolfenbrooklyn. To expand the social factor, there are many employee events. Furthermore, they offer good benefits for employees, such as work-life-balancing, a 13th salary and further training opportunities, which make Jägermeister an attractive employer.

All in all, it can be said that Jägermeister is a modern and traditional company that has made many right decisions in the past and remains successful to this day. It is very impressive what

Jägermeister has already achieved and what kind of history they look back on. Although the actual product - Jägermeister - has hardly changed since 1934.

## **Jägermeister and Creative Destruction: Do they Go Together?**

The process of creative destruction partly suits Jägermeister, as through many new innovations, measures and techniques they have managed to make their hardly changed product, still popular for many generations. They have put extra effort into their communication policy, creating creative marketing for a product that has been traditional since 1934. The concept of creative destruction is very important for modern companies. “Innovation and risk-taking can be important success factors for companies” (Wörle, D. 2021). Jägermeister has made many changes to remain a modern company. There is coworking space, which you often find in startups. It is important to them that employees come together and network or hone ideas together. For this, there is the Jägerdate or the Jägermeister Powerhouse.

Through the changes of Jägermeister, there was one winner - Jägermeister itself. Through my research, I am also sure that there are hardly any losers, as with other creative destruction examples, like DVD's, which have been almost completely replaced by streaming services, like Netflix. Jägermeister risked a lot and adapted to new situations quickly. Therefore, they never got replaced by other companies. During many creative and innovative work insight the company they remain successful. So, I conclude that they aren't destructive but very creative.

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## **Spotify: A Striking Example of Creative Destruction?**

*Victoria Jürgens*

The sources and websites listed with a personal ID are based upon an empirical data base. On request the list can be handed out.

### **Introducing the Case**

Founded by the Swedish entrepreneurs Daniel Ek and Martin Lorentzon in 2006, Spotify has evolved into one of the world's most valuable brands. In order to avoid the internet piracy in consumerism of music on Napster, Bearshare and Co. used by 500 million people in the 2000's, Ek wanted to support musicians and their music by inventing a legal streaming platform for music (01). By now, it is the world's largest music streaming service provider, with over 381 million monthly active users, who can hear over 60 million songs either with advertisement for free or without it by paying a monthly fee (02). The numbers of users increase every year and Spotify develops continuously new inventions on their platform. Regardless of its many competitors including Apple Music and Deezer, Spotify remains the "number-one" in terms of numbers of subscribers, country of publication and sales volume (02). Spotify being really successful, the questions are: Has Spotify caused a revolution in the music economy? Is it a fitting example for the economic concept Creative Destruction which is a crucial management concept as an "essential part of capitalism" (Schumpeter, J., 1942, as cited in Caballero, R., 2008) and an "integral part of economic growth" (Caballero, R., 2008, p. 2)? In the following chapter I seek to answer these questions by analyzing Spotify's success and impact on the business world in relation to Creative Destruction.

### **What is Creative Destruction?**

#### *Introducing the Concept of Creative Destruction and its Advantages*

The concept of Creative Destruction, abbreviated as C.D., is an economic concept of innovation developed by Joseph Schumpeter in 1942 which wants to aim a steady and in the long-run growing and profitable economy by replacing old productions and technologies by new ones to free up resources and energy for innovation (Caballero, R., 2008). "This restructuring process permeates

major aspects of macroeconomic performance, not only long-run growth but also economic fluctuations, structural adjustment and the functioning of factor markets” (Caballero, R., 2008, p.1). The process of industrial innovation revolutionizes economic structures from within. The economic dynamism should result in economic development and the opportunity to seek profit, whereby it is possible to ensure a higher living standard. Nevertheless, there is always no guarantee and an uncertainty for new innovation. Continuous renewal is required, destroying no longer needed values to create new values. (Caballero, R., 2008)

Schumpeter stated it is a “essential fact about capitalism” and a long running business cycle (Schumpeter, J.,1942, as cited in Caballero, R., 2008). Over the long run, the process of C.D. can lead to over 50 percent of productivity growth. Moreover, “obstacles to the process of creative destruction can have macroeconomic consequences” (Caballero, R., 2008, p.1). The positive fundamental transformations bring out winners and benefits like new companies with their new employees, possible innovations and a growing economy.

### *Disadvantages of Creative Destruction*

On the other hand, it should be noted that there are also disadvantages, for example a massive sometimes large-scale structural unemployment. Moreover, regional unemployment can make the destruction phase last for a long term, “new jobs may be created in the economy, but not in the area of high employment” (Pettinger, T., 2018). In consequence, to prevent long-term damage C. D. has to be carefully managed. However, Schumpeter saw depression as an opportunity to adjust to change. From his point of view every non-profitable company should close down (Schumpeter, J.,1942, as cited in Caballero, R., 2008). In the opposite to him today's scientists argue on the basis of the so fast changing economy that it is not always recommended and efficient to shut down a whole company because of a short-term and temporary recession (Pettinger, T., 2018). Instead, also preventing macroeconomic consequences, there are many other opportunities such as Corporate Entrepreneurship. In this concept the innovation is created within the old company and helps to restructure the company itself. Therefore, no new companies have to replace the old. Nevertheless, the old technology is replaced by the new one.

## Spotify and Creative Destruction

### *Application: The Case in the Context of the Concept*

In the case of Spotify, it has replaced an old technology and has revolutionized the music industry. Daniel Ek, the founder of Spotify, saw the opportunity at the right time and knew what he wanted to reach, he once said: “Our platform it had to be, nothing but revolutionary!” (Daniel Ek, “Stream On” 2021 as cited in 03). He invented a streaming platform for music. In the past, people heard music via compact discs (CD’s), later per download, after Apple invented iTunes and gave access to music by paying per download. But a streaming platform for “free” was totally new. “The music industry has seen numerous technological changes which have led to the rise and fall of several companies” (Pettinger, T., 2018). Cassettes overtook vinyl, CD’s overtook cassettes, electronic downloading overtook CD’s and streaming overtook downloading. Spotify is part of a row of Creative Destruction cases, but how did that happen? Ek created a legal way to listen to music online and made a luxury good to a daily essential. Therefore, Spotify was the “savior of the music industry business”, the internet piracy led to a loss of revenue from selling CDs in the 2000’s and the big music labels and musicians were losing more and more money. The technology change came with the internet so that the music industry had to change too.

### *What it Means to be a Manager and Entrepreneur*

A small startup showed the music industry the path to choose, but it took two years to convince the music labels to sell music licenses to Spotify and to help the industry to its economic success (08). But Ek’s vision and his high entrepreneurial risk led to success. 2008 Spotify was published (02). Daniel Ek constantly focused on growth and the power of time. 2017 online streams firstly created more sales revenue for music labels than selling CD’s (06). Today 50 percent of the revenue is based on streaming (06). However, as an entrepreneur Ek has never taken a rest on that huge success and constantly tries to implement new features in his app. In the beginning Spotify provided only music, today the platform is known for the 2011 invented algorithm for user adapted playlists based on the individual search history and their music taste (07). Maintaining, to his entrepreneurial talent, Daniel Ek even established specific time slots for himself to take time to be creative (08). Nowadays, the company not only concentrates on music anymore, but it has also anticipated the upcoming hype of podcasts and has bought Podcasts Start Ups (07). The hype



already established, in 2019 six times more people listened to Podcasts than 2018 (07). In Germany currently one-third of the society listens to Podcasts, which generates more time on the streaming platform (07).

### *Reflections*

A big system change like this, has typically its ups and downs. 2019, one year after Spotify went public the company is worth 23 Mrd. \$, but still hasn't had one year with black numbers (06). The streaming platform has to pay off 50 percent of the revenue to the labels for them being the music license- and stock holders (06). Generally, Ek and Co. are criticized for the payment system and unequal separated revenue, especially looking at the musicians. If a song is streamed, a musician receives on average 0,003 cent, however Spotify pays 0,38 cent to the labels who are the big winners of the system change (07). In the past, musicians made money by selling CD's, these days artists make money with their concert (07). The transformation from Spotify has been changing it all and still does. Spotify itself is so controlled by the big music labels, that musicians all over the world demonstrated against the unequal paying system, the so called "Pro Rata" system, which means 90% of the musicians cannot live just from streams (07). The problem has many aspects involved not just the labels and the old contracts with the musicians, which are not designed for streaming platforms (03). The algorithm also prefers already often streamed and in the genre fitting songs, that is why 90% of the streams represent 10% of the songs (07). So it is only profitable for an artists if you have millions of streams even though still concerts gain more money (07). But what was Daniel Ek's goal in the beginning? His goal has been to help out the musicians. Because of this intention, Spotify starts to make contracts directly with the artists or their independent labels (08). It is going to be interesting to follow up the upcoming years, when Spotify continuously will try to become more independent. In England, a legal process has already taken place with Spotify and the major music labels of England (03). Additionally, Spotify has already started its own Newcomer promotional program, where musicians for example can learn how to use the Spotify algorithm as a benefit and integrate AI (07). Streaming has been changing the way music is made, the creative part is getting more and more adjusted to a computer algorithm, just to make a little more profit and getting known (07). The streaming platform and its algorithm can now decide which music is popular and which is not. Critics have hardly condemned this and argued, the value of music cannot be measured by the quantity of streams (04). In conclusion, there still are many

problems need to be solved. Daniel Ek has invented Spotify, his second reason to do so, maybe can finally reach out to the roots, the artists and musicians itself, so they can live from streaming.

## Conclusion

It is clear that this digital transformation made by Spotify and Daniel Ek has been influencing the music world disruptively, it has been changing the way of listening to music, the way music has been made and the way it and the artists behind it has been appreciated. Spotify is a real game changer and has been leading to a music industry revolution. Old technologies and resources like CD's had to make room for new innovative streaming platforms like Spotify. The influences of Spotify are macroeconomic and gains economic growth in the music business, that is why Spotify is a striking example for Creative Destruction.

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# Creative Destruction: Elon Musk Reshaping the Future

*Lewin Bo Koch*

## Creative Destruction (Joseph Schumpeter)

*What is Creative Destruction? (Joseph Schumpeter, 1942, Chapter VII)*

The concept of Creative Destruction was first published in “Capitalism, Socialism & Democracy” by Joseph A. Schumpeter in 1942. Creative Destruction describes an evolutionary process of capitalism, in which the economic structure is constantly adapting towards new developments and by that destroying the existing forms. Capitalism contains competition, firms get eliminated from competition by stagnating. New developments by capitalist companies such as advanced methods of transportation, technology, new forms of production etc. are not only what keeps capitalism moving, but in addition what creates new firms or keeps existing firms alive. Thus, Creative Destruction can never be stationary, but is constantly restructuring the economic system in favor of the successfully adapting competition, keeping in mind that it always brings winners and losers.

## Elon Musk and his Companies

*Future Vision of Elon Musk*

Elon Musk is not only known as the co-founder of Tesla, SpaceX, Neuralink and The Boring Company, but also for his futuristic goals set for his companies and humanity (*Elon Musk*, n.d.). Musk believes that in our future technology will advance further enabling self-driving cars, interplanetary rockets, brain-machine interfaces and more to be established in our society (Andrew Maynard, 2021). Nevertheless, he is taking steps towards such a future by being entrepreneurial in his companies developing new technology to fulfill his plan taking the necessary risks of failure.

*Innovations by Elon Musk's companies*

### **Tesla (Information based on <https://www.tesla.com/about>)**

Tesla was founded in 2003 with the mission of accelerating the world's transition to sustainable energy and by that prioritized the production of all-electric vehicles. Furthermore, Elon Musk the

CEO of Tesla is satisfying his own “Secret Master Plan” (Elon Musk, 2006) with Tesla’s intentions, which is to produce affordable cars for every price range to move onto a more sustainable car industry. Tesla revealed their first car in 2008 with the Roadster and moved on to the Model S, which revolutionized the electric car industry by rating first in efficiency, safety, and performance of its class. After the launch of the Tesla Model 3 in 2016 his “Secret Master Plan” was achieved. Today Tesla is selling four different cars but is on its move to put more on the market. The Company also reached the threshold of being the first car company to reach \$1 trillion in market value as of 2021 (Daniel Thomas, 2021). However, despite Tesla being known as a car company, they manufacture Solar Roofs and Panels for renewable energy generation and consumption.

### **SpaceX (Information based on <https://www.linkedin.com/company/spacex>)**

SpaceX was founded in 2002 and is manufacturing rockets and spacecraft. The company’s main goal is to expand humanities territory to other planets and with that revolutionize space travel. In 2010 SpaceX reached the threshold of being the first private company to return its spacecraft back to earth. Since 2012 the Dragon spacecraft is attaching and returning from the International Space Station. SpaceX latest achievement is the Falcon 9 rocket, which is the first rocket to be capable of reflight after entering space.

### **Neuralink (Information based on <https://neuralink.com/about/>)**

Neuralink was only founded in 2016 and thus has not yet made any history changing achievements. However, the plan of developing neurotechnology that can be interlinked with human brains to cure diseases and expand human abilities is leading towards the future vision of Elon Musk.

### **The Boring Company (Information based on <https://www.boringcompany.com/>)**

In 2016 The Boring Company was first introduced to public with the mission of building tunnels to allow faster transportation, stop traffic and transform cities infrastructure. The tunnels are all-electric and emission-free and test-tunnels for experiments have been built.

## **What does Elon Musk have to do with Creative Destruction?**

Creative Destruction is a never-ending process (Joseph Schumpeter, 1942). Innovations way from the past e.g. the assembly line have already been through the process of Creative Destruction. Nonetheless the innovations and companies of Elon Musk are currently going through this process and have yet to be confirmed of being successfully established in society no matter their promising future. Thus, I can only make assumptions on how the future will develop.

Elon Musk's companies are representing the new revolutionary competition that is reshaping the current economic system, but why? For his first company Tesla, it is clear that because of environmental, government and social issues of non-sustainability in the future the favors are heavily on the side of sustainable projects, companies or even innovations. E.g., the car industry is transitioning into being mainly all-electric (Cornet et al., 2021). Accordingly, a company that bases on generating electric energy and manufacturing all-electric vehicles such as Tesla has a huge potential in the future and is most likely to succeed. In this case, stagnating non-adapting car companies that stick to producing non-sustainable cars will hence be futureless or non-existent. As a result, the economic system will change, but how? This depends on the companies themselves and if they adapt to the new circumstances or not. For instance, Germany is known for their cars and is primarily depending on German Car companies for their economy (Germany Trade and Invest, 2021). Thus, Germany's economy can benefit or be harmed in the process of German car companies adapting successfully or unsuccessfully to being sustainable in the car industry. Nevertheless, I can say that the most sustainable car companies will survive the process of Creative Destruction.

For Elon Musk's second company SpaceX, we know that life on earth is limited in ways of area or resources. In the far future, humanity will have to face those huge problems with planet earth and a solution will be inhabitation other planets (Simon Worrall, 2018). The process of SpaceX being the innovative company and thus competition being eliminated is quite clear. However, what I find most interesting in the process of Creative Destruction is the new economic system that arrives from it. If humanity were able to inhabit different planets, then who owns what of the planet? How is the economy and government on that planet handled? Perhaps, companies like SpaceX will be the new government. In this example we get to the limitation of Creative Destruction. According to Joseph Schumpeter (1942) Creative Destruction is a business cycle and

reshapes the economic system, but what happens on a new planet, which does not have businesses or an economic system yet? Is it possible for capitalism to exist on that planet? Humanity will face a lot of possible problems.

For Tesla and SpaceX there were already systems and successfully established companies. They innovate an existing product. Regardless, Neuralink and The Boring Company have completely new things in mind. There is no such thing as brain-machine interfaces or a tunnel system below the surface yet. Thus, it's difficult to find products or businesses that will be destroyed in the process of Creative Destruction, but rather easy to find systems that will be restructured. E.g., if brain-machine interfaces were to happen they will most likely change the treatment of disabilities (Johannes Kögel, 2019). Another example, a tunnel system would most likely reorganize the current traffic systems. Innovations for Creative Destruction can therefore be developments of the current state of things or completely new things.

Lastly, I'm going to address the losers and winners of Creative Destruction. To explain the principle, Tesla and the car industry gives the best example. Winners and losers can obviously be the firms, in this example Tesla would be a winner and a company that fails to adapt will be the loser. However, winners and losers can also be the employees of the companies. On the one hand, a worker that is close to retirement, might not be able to change his work anymore, which would result in him not finding a new job. On the other hand, a freshly graduated student might seek the opportunity to work in future developments and broaden his knowledge. Despite all that, what I find most interested in the concept of winners and loser in Creative Destruction is in regards with Neuralink being successful in the future. If brain-machine interfaces are on the market, then who will be able to get them? In first place it will cost a lot of money to afford the surgery and thus only rich people could afford them. Poorer people will be left out creating a segregation in society with winners and losers. However, this for now just a possibility, but knowing that the possibility exist, gives us an insight of how the process of Creative Destruction can result in a worse economic or societal system. Nonetheless, it's also true that not every innovation is successful.

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# Creative Destruction: Revolutionization of the Cab Industry by Uber

*Aryan Kumar*

## What is Creative Destruction

*“Change is the only constant”* is an extremely popular quotation by the ancient Greek philosopher Heraclitus of Ephesus. Even though this was quoted several centuries before, it remains extremely valid today across all the fields. According to Joseph Schumpeter, who is known to popularize this concept, “describes the “process of industrial mutation that continuously revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one” (Capitalism, Socialism and Democracy, 1942). The concept of creative destruction i.e. the destruction of the old one to be replaced by something has existed since immemorial, the humans started with stone tools but later it was replaced with bronze and then with iron. Humans have been replacing old and obsolete articles with new updated ones to ensure a more convenient lifestyle and this is what has ensured the constant development of our civilization.

Creative destruction also has certain downsides and it makes a situation of “Winners and Losers” Entrepreneurs and corporations who work with a constant development plan and adapt to the newer developments early and in a well-organized manner make profits due to creative destruction but the firms which take a conservative approach towards development and the workers of that company are usually the ones who suffer losses. This can be explained by the comparison of Kodak and Fujifilm, both of them used to be giants in the photographic film-based cameras up till the early 2000s. By the 2010s, Global demand for the photographic film has fallen to less than a tenth of what it was ten years ago. Due to the fall in demand, Kodak and Fujifilm both saw dwindling sales. To counter this Fujifilm swiftly carried out massive reforms whereas Kodak was unable to do so. As a result, Fujifilm is currently thriving in the photography industry whereas Kodak is still working hard to revive itself. (Kmia, 2018)

## Introduction to the Cab Industry and Uber

Taxi cabs are found across the globe. Taxis are considered to be a more convenient mode of public transport than subways, buses, and trams as it ensures more privacy and is more comfortable for the passengers. What can be more convenient than just going on the street, hailing a taxi, and being

on our way to the destination conveniently and comfortably? Well, the founders of Uber had just figured it out. The ideation of Uber happened in December 2008 when two friends Travis Kalanick and Garrett Camp could not find a Taxi. Uber was developed on the sole idea of getting cabs via phone. (Uber Technologies Inc, n.d.). Uber was launched in San Francisco in March 2009 and the first ride via the Uber app was taken on the 5<sup>th</sup> of July 2009. (Uber Technologies Inc, n.d.)

The ease and simplicity of ordering a car fueled the app's rising popularity. With the tap of a button, a ride could be ordered, a GPS identified the location, and the cost was automatically charged to the card on the user account. The San Francisco-based startup quickly became one of the hottest companies and grew quickly. (Blystone, 2021)

### **The Creative Destruction by Uber**

Uber has undoubtedly affected the taxi industry by offering lower prices, faster and more quality service, as well as a higher degree of transparency in terms of choosing drivers and determining fares. (Pepić, 2018). After the arrival of Uber, the cab industry across the globe went through a massive overhaul. The traditional colors of Taxis which belonged to different cities like Yellow for New York, Black and Yellow for Mumbai, and Green for Bangkok has now been almost completely replaced by chic-looking Uber cabs which are barely distinguishable from a private vehicle. The impact of Uber is so massive that The Medallion Financial Corporation, which is an NYC-based specialty finance company that originates, acquires, and services loans that finance taxicab medallions had been trading for around \$16.45 in November 2013 is now under \$7 per share. Such a massive devaluation of the Medallion Financial Corporation and the falling of the prices of Taxi permits across the globe has been termed as the "Uber Effect" (Perry, 2015). As the traditional taxi-cab industry is collapsing, the taxi cartels like the one based in New York City are demanding taxpayer bailouts. (Perry, 2015).

### **The Results of Creative Destruction by Uber**

As explained earlier, Uber has now essentially annihilated the traditional taxi cab industry. The development of Uber can easily be considered one of the most innovative and productive innovations of the 21<sup>st</sup> Century. Uber deserves due credit for creating a new market of application-based cab services and several companies like Lyft, GrabCabs & Ola Cabs have followed Uber's suit.

Coming to the concept of Winners and losers as discussed in the earlier sections of this chapter, remains true in the case of Uber too. The two of the biggest winners and the reasons for them being the winners are listed below:

1. The Uber Cab Drivers: The older untrackable taxi cabs were considered to be a risky affair for children and solo women travelers in some cases and Uber cabs have effectively reduced this problem with the help of background checks of the drivers and the possibility of constantly tracking the rides. Not only does Uber make the passengers feel safe, now the drivers feel safer while driving too. Rude, aggressive, and disruptive passengers are weeded out because drivers rate their customers. Consistently low ratings or reports of unsafe behavior toward drivers can cause the deactivation of an account. (Jalloh, 2021)
2. The Customers: The customers are one of the biggest beneficiaries of Uber. The riders input their destinations into the app, and the drivers use navigational software to get there. Wrong turns are unlikely. (Jalloh, 2021) As the passenger's credit card is linked to the Uber account, no cash is used. At the destination, the driver stops the car and the passenger gets out and walks away. A receipt is sent via email (Jalloh, 2021)

Due to the increasing popularity of Uber, one party has been the clear sufferer of the Creative destruction. The entity that faced the biggest loss because of Uber is:

1. The traditional taxi cab industry: The traditional taxi cab industry and the people associated with it are the biggest sufferers of the success of Uber. With the arrival of Uber, the customers are preferring the convenience provided by Uber above the traditional taxis. In 2017 more people used Uber than yellow cabs in New York City, according to the Taxi & Limousine Commission (TLC). (Goldstein, 2018). The impact on the Taxicab drives because of Uber has been so harsh that it has compelled some of them to take their lives, At least five taxi and livery drivers in New York City alone are believed to have committed suicide in the year 2018. (Goldstein, 2018). Uber has certainly created a new set of winners, including consumers and stockholders. But for people who have spent their lives as cab drivers, that transition may be a difficult one. (Goldstein, 2018)

## Conclusion

With the help of the case study of Uber, we learned about the process of creative destruction. As long as the human desire of making things better and better exists, the process of creative destruction will never end. Even though the field of business is considered to be a sophisticated place, it still runs on the same basic principle of nature, only the fittest and the ones who adapt to change will survive.

Coming to the case study of Uber, Uber is one of the most closely followed companies in the world, once going down in history as once the world's most valuable startup and disrupting the modern ride-sharing and transportation industry as we know it (Blystone, 2021). The traditional taxi industry which dominated and monopolized transport at the global metropolises for decades is now slowly succumbing because of the rise of these modern application-based ride-hailing services.

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# Creative Destruction: Skyscanner Case Study

*Elizaveta Laevskaya*

## Introduction

The following chapter is focusing on economic theory of Creative Destruction, which was created by Joseph Schumpeter (February 8, 1883 – January 8, 1950), a well-known Austrian-American Economist and Political Scientist. The chapter briefly introduces following theory, gives some general information about the company Skyscanner, and analyzes which elements of Schumpeter's theory were implemented by the Start-up.

## Creative Destruction Theory

The term firstly appeared in the work of Joseph Schumpeter “*Capitalism, Socialism, and Democracy*” in 1942, where Creative Destruction is defined as “the process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one”, he also emphasizes that “Creative Destruction is the essential fact about capitalism”. (Schumpeter, 1942 [2003], p.83) The key features of Creative Destruction are increase of productivity and economic dynamism. They, as a consequence of capitalistic profit seeking, must save time, money, and higher standards of living in a long run. Another important trait of Creative Destruction is the freeing up of resources and energy for innovation by way of destruction of long-standing arrangements and assumptions, as well as loss of the current jobs, which supposed to make space for new ones. (Kopp, 2021)

## Skyscanner: About the Company

The Skyscanner was launched in 2003 in Edinburgh by three friends who wanted to make flights comparing easier. The idea behind the Startup is a metasearch engine which gathers data from online travel agencies (OTA's), airlines, car rental providers and other sources to help its customers finding the most beneficial prices and offers. The travel aggregator allows to compare personally framed product and offers of travel industry using only one website. It also enables to book chosen product directly or readdresses seamlessly to the offer of travel supplier. Another feature of Skyscanner is a highly local approach, aiming to provide users with a product which meet their local market needs. (Website Skyscanner)



Today it is a unicorn company with eight offices, more than 1000 employees, and 1200 partners including OTA's, airlines, hotels, and car rental providers all over the world. Skyscanner has a site and an app which operate in 30 languages and got more than 100 million monthly users before the COVID pandemic. (Website Skyscanner)

## **Creative Destruction: Case Study Skyscanner**

Firstly, online travel agencies changed the travel industry. It became easier for people to plan their trips via Internet instead of using offline travel agencies. But it was still a big amount of work: customers needed to go through many online travel agencies to find the suitable offer. Here got into the game Skyscanner: According to "Eye for Travel" Traveler Loyalty Survey 2018, 94.4% of consumers use price comparison sites, at least occasionally, when booking their accommodation. (Grant, 2018)

As Skyscanner never really lost the product focus, it helps company to lead on the market also among travel metasearch engines by means of steadily occurring technical innovations. (*How I Got Here, Episode 1 - Gareth Williams of Skyscanner*, 2019)

Company started with well-known feature "Search everywhere" in 2006 which helps customers to find the cheapest travel opportunities. In 2015 it became the first global travel metasearch which allowed airlines to take direct bookings via third party by means of New Distribution Capabilities. (Website Skyscanner) Since 2017 Skyscanner acquired Twizoo, a small Startup, whose platform automatically provides companies with relevant content across social networks and helps to work with relevant feedback more efficiently. (Lomas, 2017) The most recent example of technical innovation is Skyscanner introducing in 2019, eco labeling, which helps travelers to choose lower emission flights. According to the Booking.com sustainability travel report in 2019, "over half (55%) of global travelers report being more determined to make sustainable travel choices than they were a year ago." (Visser, 2020) This new feature not only corresponds with customers demand, but also considers the huge impact of travel industry giants on the environment, especially CO2 emission levels, and consuming behavior of its clients.

Another important change on travel market which Skyscanner contributed to was the shift from classic, for this industry, economy model, fees or percent from booking charged from customers to a digital advertising website model.

Visitors of the website don't pay any fees or percent for the service. Skyscanner earns money mainly through CPC (cost per click), CPI (cost per impression), CPA (cost per acquisition) and hybrid ads (a combination of CPC and CPA). (Anjana, 2022) Obviously, it also contributed to a better customer experience and higher the standard of their lives.

Despite the fact that appearing of metasearch engines changed the travel industry and interactions between different branch actors a lot, it doesn't destroy it. The Skyscanner not only created more than a thousand of new jobs all around the world, but also took on board online travel agencies as the third party. It has probably changed the way OTA's work for its customers but didn't ruin them completely. The same applies to hotel suppliers: metasearch aggregator gave them the opportunity even to grow their revenue with direct bookings, flow of the new clients and more efficient advertisement. (Anjana, 2022) According to Mirai, experts in hotel distribution, the metasearch becoming the most important advertising channel: in 2019 the share of investment in advertisement in meta engines was 64%. (Delgado, 2019, Table 3)

Even though Skyscanner gives a lot of space for OTA's and hotels to grow, it is still difficult for small online travel agencies and hotel suppliers to get their market share. It could be excessive for them to invest in advertisement by Skyscanner or another meta engine, as well as become their partner. Moreover, it couldn't guarantee sales growth for them, since bigger OTA's become destination sites more often. (Similarweb, 2021, Chapter "Einweisung") Dominating of meta engines also can be harmful for giant online travel agencies with a strong personal brand, since they have already built their client base and found their niche before metasearch becomes so strong on the market.

Another growing revenue stream of Skyscanner is their Business-to-business (B2B) platform which provides data insights to the travel industry since 2014.

According to Gareth Williams, co-founder, and ex-CEO of Skyscanner, they "started thinking about data as a service" so they decided to start sharing data with other businesses in travel industry because of "memory how painful it was for them, when they realized that this data is really hard to get hold of" (*How I Got Here, Episode 1 - Gareth Williams of Skyscanner*, 2019)

Nowadays, according to Skyscanner's platform for partnership, they provide data insights for leading airlines, airports, and marketing agencies to stay one step ahead by understanding current demands, changing travel trends and habits based on travelers' search for the next 12 months. It

also helps their partners to optimize pricing strategies, analyze competitors, anticipate market trends, and identify unserved / underserved routes. (Skyscanner Ltd., 2022)

## Summary

The emergence of Skyscanner and metasearch engine technology changed the travel industry completely in many aspects: starting from a more efficient way to book and find flights for its customers, continuing with a shift to new for the industry economic model, which maximizes profit not only for Skyscanner, and finishing with typical for the company constant technical innovation. The case study of Skyscanner shows that many traits of Joseph Schumpeter's Creative Destruction are still relevant nowadays.

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## Creative Destruction and Tesla Motors

*Daniel Lichtmannecker*

### Creative Destruction: A Aconomic Theory by Joseph Schumpeter

Joseph Schumpeter, born in 1883, was an Austrian economist. With his book “Capitalism, Socialism and Democracy” (Schumpeter, 1942) he coined the term creative destruction. He stated that the birth of something new often means the death of something old and transferred this concept to business. In this publication, he concluded that everything is subject to constant change and disruptive innovations can lead to the sudden demise of companies or entire industries. Schumpeter describes creative destruction as absolutely necessary and logical for a capitalistic system (Bögenhold, 2011). There are plenty of examples of creative destruction in history: cars overtaking horses as the main mean of transport or the assembly line revolutionizing the way of production. These creative new solutions in general lead to economic growth and a higher standard of living. However, as the name creative destruction suggests, there is also a negative side to this innovation process. Creative destruction can lead to the unemployment of whole professional groups or the economic decline of whole regions (Bögenhold, 2011). Another important aspect of Schumpeter’s theory is the role of entrepreneurs, as he believes they are the main drivers for economic growth. For him, true entrepreneurs are creative, innovative minds who venture into relatively new, dynamic markets. They are mainly motivated by the joy of creating something new and the will to prove themselves against all odds (McMullan & Kenworthy, 2015).

### The Case: Tesla Motors

On its website, Tesla Motors (“Tesla”) describes itself as follows:

*“Tesla was founded in 2003 by a group of engineers who wanted to prove that people didn’t need to compromise to drive electric – that electric vehicles can be better, quicker and more fun to drive than gasoline cars [...]” (Tesla, 2022a)*

The company went public in June 2010 and was the first successful IPO in the car industry in the US since Chrysler in 1925 (Musk & Vance, 2015). Today, it is among the ten biggest companies in the world, with a market capitalization of around \$1T (Nasdaq, 2022). In 2021 it successfully delivered 936,172 vehicles to its customers. Tesla’s CEO Elon Musk was recently honored as “2021 Person of the year” by TIME Magazine (Ball et al., 2021) and he is considered the richest

man alive with a net worth of \$222.2 B (Forbes, 2022). His role in the rapid growth of Tesla can be considered as quite enormous, as he took over the company as CEO in 2008 when it was on the verge of bankruptcy (Musk & Vance, 2015) and within a few years turned it into the highest valued automaker by market capitalization in the world, ahead of Toyota or Volkswagen.

## **Is Tesla a Modern Example of Creative Destruction?**

To what extent can Schumpeter's theory now be applied to Tesla and the car industry? As Musk & Vance (2015) state out, it is important to note that Tesla is not trying to just build cars with a new engine but rather tries to “rethink” cars as a whole: with Tesla being in full control of the software of its cars, the company is able to offer software updates for their cars, similar as customers are used to by their mobile phones. These updates are free, so the car even improves after buying it. To charge your car, Tesla is installing its own infrastructure of “Superchargers”, which are already located in every state of the US and lots of locations in Europa and Asia. The newest version “Supercharger V3” only needs 5 minutes to charge 120 kilometers (Tesla, 2019) and during this time you can even play video games or watch your favorite series with the big monitor inside your Tesla, as it has built-in Internet access. What Tesla produces is not only cars but rather computers on wheels (Musk & Vance, 2015). It is important to note that Tesla built full-electric cars since the beginning of its existence whereas the core competence of established car companies is in the internal combustion engine. Since the sudden rise in popularity of electric vehicles and Tesla in specific, other car companies hurried to implement this new technology into their cars.

But let's have a look at the car industry as a whole and the market for electric cars: in Germany, a country famous for its car industry, the amount of newly registered electric cars has grown by 85% to 356.000 cars in 2021, making it a share of over 10% from the total amount of newly registered cars (Tagesschau, 2022). At the same time, the whole car market in Germany has dropped by 10%. We see that electric cars are on the rise, the car industry as a whole is changing and Tesla is at the forefront of this development. The “Tesla Model 3” is the most newly registered passenger car in Germany in 2021. It sold over 35.200 times, ahead of competitor models of Volkswagen, the “VW E-Up” and the “VW Id. 3” (KBA, 2022). Schumpeter's theory of creative destruction states that innovations can lead to the demise of established companies and even entire industries. If we take a look at the numbers above it is clear that there is a trend from combustion

engines to cars with alternative engines. While most car companies sold fewer cars than in the last years, it is also clear that Tesla increased its total deliveries of cars from almost 500.000 in 2020 (Tesla, 2021) to 936.000 in 2021 (Tesla, 2022b) which means an increase of over 87%. However, Tesla's competitors have adapted to the change to electric mobility and almost all have their own fully electric vehicles in their product range, which can certainly compete with those of Tesla in terms of quality and price. We definitely can apply the concept of creative destruction to the car industry as a whole: the numbers draw the clear picture that the "old" way of building cars with combustion engines will eventually shift towards a "new" generation of fully electric cars. Most car producers even name specific dates on which the last car with an internal combustion engine is to come off the production line and a complete changeover to alternative forms of propulsion is to have been achieved (Köllner, 2021). If car companies in the future really only produce and sell electric cars, Tesla could be favorably positioned in the market for several reasons: the company would have the most experience and know-how in the production of electric cars as it was the first company to do so. What is already proving to be a big advantage Tesla has over its competition is that Tesla produces most of its car technology itself and is not as reliant on suppliers. While the extreme scarcity of semiconductors since the beginning of the Covid-19 pandemic has led to production declines for most competitors, Tesla has been able to significantly increase its production numbers and gain an edge over the competition (NDR2, 2022). Not measurable but of great importance is the brand image of Tesla and the influence of CEO Elon Musk on the customers. Musk seems to fit perfectly as an example of what Schumpeter calls a creative and innovative mind with the ultimate goal of succeeding and beating everyone else. In his biography, he explains that what matters most to him is winning, and not on a small scale (Musk & Vance, 2015). Many buyers transfer their picture of Musk onto Tesla and also view it as a young, dynamic and innovative company. Tesla's cars seem to be getting an expression of a modern lifestyle and to be part of that, customers are willing to pay a bit more for Tesla's cars or at least prefer them to comparable cars of competitors (Musk & Vance, 2015).

## **Conclusion of the Findings**

What can we conclude on the evidence so far? It seems as if the car industry as a whole is going through a big change right now and Tesla can be considered one main driver of it (Musk & Vance, 2015). However, only time will show if Tesla will be able to grow its market share to become one



of or even the biggest car company in the world or if the competitors will catch up and keep their edge on Tesla. If Tesla somehow manages to keep its rapid growth per year, get the biggest market share in the car market and push its main competitors out of the market, it could be considered as one of the greatest examples of “creative destruction” in the history of capitalism and prove once again the validity and actuality of Schumpeter’s theory.

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# Creative Destruction: The Rise of Cryptocurrencies

*David Joshua Neukirch*

## Introduction

The world is a place full of innovation; in the past decade we've seen a great shift towards a more digital society. Social Media and cell phones took over and slowly but surely a cryptocurrency named Bitcoin started to change the financial world forever by offering the first virtual currency which isn't run by a government but by the people. This chapter takes a deeper dive into cryptocurrencies and is supposed to apply the principle of creative destruction in reference to cryptocurrencies and the structure that is based on them.

## The Principle of Creative Destruction

Joseph Schumpeter coined this term in 1942 and used it to describe a process in which a capitalistic economy is constantly changing by the power of innovation. (Investopedia, Carol M. Kopp, 23.06.2021). Maybe the word “destruction” sounds harsh at first, but it is used to show how old technologies and processes are being replaced by newer ones which aren't just upgrades to the existing structures but can be completely new innovations and therefore game changers. . One example of this is the innovation of the car which led to a steep decline in the usage of passenger trains and other public transportation. Nowadays almost every US household owns a car and that's mostly due to the fact that cars are way more time efficient than most forms of public transportation and therefore makes people more productive(Statista, Felix Richter, 29.05.2021). This describes another importance of Schumpeter's theory, the constant search of a more productive way to manufacture items or provide services by the market itself (Investopedia, Carol M. Kopp, 23.06.2021). Mainly this is due to the fact that a higher productivity means a lower production cost which in itself is the goal of almost every company in our market. Schumpeter describes the entire process as a natural and organic process which in fact is true, but often there is also a downside to it(Investopedia, Carol M. Kopp, 23.06.2021). New innovations mean the destruction of old technologies and thus also a loss in jobs which in turn creates new jobs. A problem arises when a part of society can't keep up with the trend of constant innovation and is forced to learn how to adapt to a new job market, which may not be as easy for someone who's been part of a company for most of their life. Cryptocurrencies are in the midst of changing our financial system.

## **What are Cryptocurrencies?**

To understand cryptocurrencies one must understand Bitcoin. Bitcoin was the first ever cryptocurrency which was invented by Satoshi Nakamoto in 2008/9 (Business Insider, Grace Kay, 28.11.2021). The idea of Bitcoin is to create an alternative to our current monetary system, which would allow its users to exchange goods and services or just value without the need of a financial institution or government (Satoshi Nakamoto, 24.03.09, p.1). Whereas currencies like the Dollar are controlled by the U.S.A, Bitcoin and other cryptocurrencies are decentralized by the way they are coded. Bitcoin as is other crypto is running on a blockchain which “is an open, distributed ledger that records transactions in code.”, allowing its users technically full transparency of the process of a transaction (Forbes, Kate Ashford, John Schmidt, 25.01.2022). These processes are being calculated, verified and added to the list by computers, which are either running on a proof of stake or proof of work concept thus allowing users to make transactions (Forbes, Kate Ashford, John Schmidt, 25.01.2022). In total most cryptocurrencies allow users worldwide to make transactions without any restrictions thus creating a liberal approach towards money. Cryptocurrencies differ in their code and approaches but are mainly based on Bitcoin and Ethereum. Over all the Top 10 cryptocurrencies by market capitalization make up an amount of approximately 1,211.2 billion US\$ (WiWo, 24.01.2022).

## **Does the Theory of Creative Destruction Apply to Cryptocurrencies?**

In direct comparison crypto currencies and fiat money might be quite similar at first. They are both being used to exchange goods for a representation of a system. Fiat money needs to be printed which is quite of a production process but definitely less energy consuming than cryptocurrencies. But there is more to it, since cryptocurrencies theoretically don't rely on a country or governmental system they aren't dependent on for example oil. But countries like the US are and therefore get into wars, which have been fought over oil and other political reasons, to keep the Dollar afloat. These wars are often not considered as an energy consumption connected to the dollar but they are. Since cryptocurrencies are further evolving they also need less energy which in itself is creative destruction because older less efficient coins will lose market capitalisation. Ethereum is a good example for this. It will change to a previously mentioned proof of stake concept, therefore enabling it to cut 99% of its current energy consumption (Bloomberg, Matthew Leising, 23.05.2021). Another fact speaking for a creative destruction is the massive amount of job listings

in the crypto market that have increased by 651% when comparing 2015 and 2017 (Forbes, Laurence Bradford, 18.12.2017). Costs due to the fight against counterfeiting and inflation are also not a problem for cryptocurrencies. The entire banking system behind transactions also isn't needed since everything is running on the blockchain (Satoshi Nakamoto, 24.03.09, p.1). The only big downside to cryptocurrency is still its high energy consumption and relatively small usability in reality. outside of it being an asset class.

## Conclusion

It is debatable if cryptocurrencies will overtake fiat money at some point but at the moment they are more and more on the brink of becoming a real contender to i.e the dollar. Countries like China are so afraid of cryptocurrencies that they are even banning them and creating their own, in fear of losing control (WSJ, James T. Areddy, 05.04.2021). Over time costs will highly likely decrease, one of the best examples for this is Ethereum, and the crypto productivity will rise leading to the end of fiat money like we know it. Especially for poorer countries it will be a way to be less dependent on the dollar. El Salvador is one of these countries and already accepts Bitcoins as a legal tender (Business Insider DE, 26.01.2022), which was unthinkable a few years ago. I personally believe that there will be crypto legal tenders in the future like a virtual US\$ or even ETH. Cryptocurrencies will probably see a big boost in countries where there might be no trust in the government or no democracy since only 13% of the human population has access to strong reserve currencies and democracy at the same time (Finanzfluss, et al, 20.03.2021, min 4:23). All in all the creative destruction via crypto currencies has already started but it will still take time for cryptocurrencies to be fully ingrained into our society.

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## **Creative Destruction: Will Social Media be the Main Tool for Prospective Marketing and Replace Traditional Marketing?**

*Jenna Prust*

### **What is Meant by Creative Destruction?**

Nowadays, it is no longer possible to rest upon economic success. It has been proven that even incorporated market leaders will ultimately fail, if no adaptation to the market is undergone.

Creative Destruction, a concept developed by Joseph A. Schumpeter in 1976 based on Carl Marx economic theory, explicitly explains how new innovations may not only change market conditions but simultaneously can cause economic growth (Schumpeter, 1979).

Innovation as the key factor for Creative Destruction describes “the creation and innovation of new processes, products, services and methods which result in significant improvements in outcomes, efficiency, effectiveness or quality” (S. P. Taylor, 2017, p. 131). Those innovations can disruptively change market conditions and go along with a paradigm shift. Companies are either forced to follow new trends and modify previous practices or maintain their course. Both bear potential risks that may result in bankruptcy of the company; If retrofitting takes too long that some companies are outpaced and lose market share, sales will decrease and eventually lead to the collapse. Likewise, if an innovation causes a radical disruption that completely overtakes the market, for what reason there is barely demand for the conventional product, no change of paradigm equally means the ruin.

Particularly regarding digitalization, fast-moving markets and new benchmarks have a lasting impact on management and corporate strategies. The necessity for agility within a company is of highest importance. Only those, who adapt to the market just in time will finally be able to maintain and expand their market position.

The rise and demise of a company in a capitalist society constitutes a healthy economy: “Every innovation that advances a country’s economy will also threaten another part of it” (Lee Harding & Gerard Lucyshyn, 2018, p. 3). Efficiency is eventually the key factor for capitalism whose driving force is competition. Although, the probability for structural unemployment increases, other sectors offer new job opportunities. Consequently, a shift in employment takes place.



## **PlayTheHype: Social Media Marketing Agency**

PlayTheHype is a Social Media Marketing Agency with the focus on consultancy of trends that was found in 2020 by Neil Heinisch, Jakob Neise and Joshua Bach. Fortunately, I was able to conduct an interview with Jakob Neise, Co-founder and OOC of the company, giving me an insight of procedures and previous cases.

PlayTheHype aims to give agencies, organizations and companies a better understanding of “Generation Z”. Over the past few years, they were able to build a community of around 180,000 young people aged 14-28 with the help of WhatsApp groups, enabling them to conduct representative surveys with an average of 8,000 participants (Jakob Neise, 2022, 14:10). Moreover, they can track which content is most frequently shared at that moment. Subsequently, trends on social media (e.g., TikTok, Instagram) can successfully be derived from that set of data. This approach in turn helps to plan and develop campaigns for different companies.

Jakob explains that Generation Z was different from previous generations. Not only were they digital natives that grew up with digital technologies and only had few or no memory of a life without smartphones and the internet, but also were young people born after 1996 a generation of political and ethical awareness (Jakob Neise, 2022, 24:55-26:20). Therefore, brands that appear on social media were obliged to pay special attention to what they market. Especially shitstorms were commonly responsible for a downward trend of organizations. Gen Z calls for authenticity and transparency on the web. Hence, the concept of PlayTheHype is “from Gen Z to Gen Z”. Jakob describes that sometimes companies trying to approach “Gen Z” receive a backlash. Outdated marketing strategies or unsuitable methods were reasons for that (Jakob Neise, 2022, 23:25). The young agency accomplishes to create this needed interface between established companies and Gen Z.

PlayTheHype is largely represented on TikTok, for a good reason. A Forbes article shows that the attention span of Gen Z was on average only around 8 seconds long (Bernhard May 2021). This is a significant information to keep in mind when considering marketing strategies. The concept behind TikTok is the exact. There, short video clips can be shared, liked and commented.

Demographical figures reveal that TikTok is mostly represented among Gen Z.<sup>1</sup> Statistics from selected social media platforms worldwide predict 755 million monthly active users on TikTok by 2022.<sup>2</sup> Thus, the platform creates a new niche for brands and businesses. Companies that can understand the mindset of Gen Z will be able to enter a huge and incredibly lucrative market.

The funny-frisch case is a prime example: The brand belongs to the company “Internack Knabber-Gebäck GmbH & Co. KG” being market leader in Germany for salty snacks. In order to broaden the companies’ attention among young people, funny-frisch cooperated with PlayTheHype. The marketing agency helped with the development of a TikTok branded hashtag challenge where users were asked to post a short video with a corresponding sound of associations with the chips brand. Under the hashtag #funnyfrischmoment, the campaign was labeled as “the most successful TikTok brand campaign of the year 2020” from German TikTok-chef Thomas Wlzig. With 950 Mio. hashtag views, 150.000 new subscribers on the funny-frisch account, the campaign increased brand awareness (Joshua Bach, 2021).

At “THE BEST AGENCY- Award” PlayTheHype won the quality label in the category “Best Newcomer Agency 2021”. The award “wants to establish a new standard in a rapidly changing industry” (THE BEST AGENCY, 2021). PlayTheHype fulfills the above-mentioned new standard and accordingly sets an example for other marketing agencies that have not shifted their focus yet.

### **To What Extent does the Marketing Agency ‘PlayTheHype’ Fulfill the Criteria for Creative Destruction?**

As mentioned above, PlayTheHype is a social media marketing agency that is predominantly tailored to TikTok. Unlike conventional marketing, which involves television and radio spots, outdoor advertising, print and sponsoring events, online marketing relies entirely on options from the digital space. Social media or e-mail marketing as well as online banner pertain to the new form of online marketing.

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<sup>1</sup> <https://de.statista.com/statistik/daten/studie/543605/umfrage/verteilung-der-nutzer-von-social-media-plattformen-nach-altersgruppen-in-deutschland/>

<sup>2</sup> <https://de.statista.com/statistik/daten/studie/1031943/umfrage/anzahl-der-nutzer-von-ausgewählten-social-media-plattformen-weltweit/>

Since younger generations, more specifically Gen Z, increasingly get their entertainment from the internet or social media platforms, the television becomes less important for them. A survey by Deloitte Insights reveals that their preferences lie in gaming, listening to music, browsing the internet and engaging on social media platforms. Whilst older generations, namely Millennials, Generation X and Boomers, prefer to watch tv shows or movies at home, only 10% of Generation Z voted for television as their favorite form of entertainment. (Kevin Westcott, et al., 2021). The shift of influence that comes along with digitalization is quite disruptive and characterizes Creative Destruction. Social media platforms as new innovations that offer numerous applications and considerably enhance efficiency, cause an immense turnaround across almost every sector, also the marketing sector. However, the transition from traditional to online marketing includes many difficulties. Jakob Neise, OOC at PlayTheHype, explains that many companies were still involved in advertisement deals with television channels that endure for around ten years, while in the meantime social media marketing became more relevant. Therefore, companies with bounded media budgets to the television lacked the agility and had a major disadvantage towards companies that can immediately change their paradigm and implement digital marketing (Jakob Neise, 2022, 19:30).

Even though digital marketing will presumably be the most important marketing sector one day, conventional marketing still plays an important part for people beyond Gen Z. Therefore, marketing should be aligned in accordance with its target group. Nonetheless, agencies should be aware of the fact, that the importance of online marketing will accelerate, and a transition is practically mandatory. Those companies who implement a paradigm shift too slowly or even refuse to change, will ultimately be destructed.

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# Creative Destruction in the Music Industry: The Rise of Spotify

*Inga Reiling*

## Introduction

To get a better understanding of our economic evolution, conceptual frameworks can give us an explanation of the market development. By its thought of moving on by destroying the old, Creative Destruction is a great example for such a concept. In the following paper I will question the appliance of the approach onto the case of Spotify.

## The Concept of Creative Destruction

### *History and Background*

The Idea of Creative Destruction has its origins in several fields. Hinduism had a large influence through the spiritual perceptions of creation. Nietzsche in the following worked with these ideas and interpreted them in his work ‘Also sprach Zarathustra’. In Zarathustra Nietzsche explained “*The man who breaks . . . tables of values, the breaker, the lawbreaker; . . . he is the creator*” (Backhaus & Drechsler, 2006). He never explicitly referred to the hinduistic ideas, but the gist of his concepts is clearly connected to them. In addition, his environment dealt with Indian culture and philosophical ideas. The first person who used the term of Creative Destruction in an economic context was Werner Sombart (1863-1941). Sombart, a german economist, wrote openly about his inspiration by Nietzsche. Further on, Joseph Alois Schumpeter (1883 – 1950) became, and is until today, a big representative of the concept. The economist from Austria never explained where his ideas came from but by his publications the idea of Creative Destruction got more public attention. It was seen as the Heart of economic circularity and responsible for the functionality. (Backhaus & Drechsler, 2006)

### *Content and Functionality*

Schumpeter assumes with his concept of Creative Destruction that it is necessary to destruct something to build up something new. As main principles, he is not perceiving the typical ways of competition such as “*methods of production or forms of industrial organization*” (Schumpeter, 2018) but the innovational mechanisms of “*the new commodities, the new techniques, the new*

*sources of supply, the new type of organization”* (Schumpeter, 2018). According to him, disruptive innovations are highly relevant to the change and process in economies. They show the circularity in functionality in economics and within companies. The importance Schumpeter assigns to his approach is shown in *“This process of Creative Destruction is the essential base for the capitalism. Capitalism consists in it and every capitalist entity must live in it.”* (Schumpeter, 2018)

## **The Case of Spotify**

### *Emergence of the Company*

The work *Business Model Pioneers* (2017), written by K. Voigt, O. Buliga and K. Michl, deals with Spotify's business model and its evolution, which started in the early 2000s. The music industry was searching for new solutions to reach their customers' expectations. 2006 was the year Daniel Ek and Martin Lorentzon, two Swedish entrepreneurs, founded Spotify, a music streaming service, which should meet these expectations of more music variety, easy usage and the possibility to connect with other people. The market demand was big, regarding piracy issues with the old media formats and their complexity in usage and purchasing. Spotify was not the first streaming provider on the market but became the most successful company in this sector. With headquarters in Luxembourg the legal form of the company is a ‘Société anonyme’ (SA), which resembles the model of German stock corporation (Derr, 2021).

### *Main Principles*

Spotify is a freemium model like Deezer or Amazon prime music. Freemium models offer some content for free to the customers. Furthermore, for a full experience, clients have to pay a monthly fee. For their premium membership Spotify charges 9,99\$ (Voigt, 2017). If you choose to stay with the free version, there are advertisements between the content and limited functionality of the app. They developed new strategies to widen their range of clients like Podcasts, additional information to the artists, connections to other social networks or partnerships with other companies. The multi-media approach of Spotify also serves this purpose.

### *Foresight for the Future*

The market power of Spotify is enormous. To stay in this privileged position Spotify must adapt to the speed of the music industry. Spotify has many opportunities to expand to new marketplaces, throughout the cooperation with other companies or into new markets in developing countries. The use of Artificial Intelligence and Big Data could also be a way of getting an even closer look into the personal data of users and to tailor their programs to the clients (Derr, 2021). In the upcoming years, Spotify might have to take a closer look on the artists opinions. There are several voices speaking up against the low payment per stream in Spotify. If the artists are not satisfied with their profit out of the streaming service, they will find their earnings in other places and cause problems for Spotify by this action. Besides that, the enormous amounts of money spent on licensing agreements, copyright processes, investments and other costs are immense. Even if the revenue is at a high, Spotify had high losses during the last years (Spotify, 2020).

### **Does Creative Destruction Apply to the Spotify Case?**

Music had and has a big influence on the everyday life of society. Streaming is not the only innovation that has changed the music business in the last 50 years. From Vinyl to CD, from CD to MP3-players, the industry changes constantly. In this paper we are dealing with the demolishing of the record industry by the rising streaming service Spotify. The global retail revenues for records had its maximum in 1999 with a high of \$38.7 billion, after this high the revenue slowly decreased. (Wikström & DeFillipi, 2016) A few years later the digital music store model such as iTunes and Streaming-services, for instance Napster and Spotify, started to rise in the industry. The handling of music went from physical to digital collections. In addition to that music became more accessible for other industries as marketing or movie production. Records were inconvenient and had a smaller variety than the online services. People expected faster access, an easier way to use and less expensive means to listen to music. Exactly these expectations were met by Spotify, the currently biggest streaming provider. In paying subscribers Spotify reached a market share in the first quarter of 2020 of 32%, leading in front of Apple Music (18%) and Amazon Music (13%) (Derr, 2021). From 2011 to 2012 the streaming industry grew for the first time over 0.4 billion in a one-year period while the revenue of the physical records slowly descended since 1999 (IFPI, 2021). The worldwide revenue of physical records shrunk to 4.2\$ billion in 2020, while the streaming share grew to a revenue of 13.4\$ billion (IFPI, 2021) This shows very clearly how



Spotify and the streaming industry suppresses the record industry. Using new technologies and the process of digitalization, they found a niche to grow and flourish to a global player in the music industry. This Growth of Spotify and the collapse of the record sales are the most apparent effects.

Nevertheless, there are some facts which oppose the concept of creative destruction in this example. The record labels are not extinct, even though they are losing capital and revenue by physical sales, they are trying to adapt to the new music industry. Converting from the reliance of physical revenues to the offer of licensing services and marketing is a possible strategy. Deals with complete control over an artists work and the publishing are becoming more usual, also called ‘multi-right deals’ (Wikström & DeFillippi, 2016). With this transition, big labels like Universal or Sony generate an enormous revenue. On the contrary, little labels or physical record shops are losing a source of income without the possibility to act. Trends, like turntables, are helpful to increase the revenue again. The sale of Vinyl Records in Germany grew by 21.9% between 2019 and 2020 (BVMI, 2020). This shows how much the industry is influenced by the customers behavior and how fast the change is happening. In a long-term view, the digital media and within that Spotifys offering of services will probably prevail and displace physical records continuously more.

## Conclusion

Is Spotify an actual example for the concept of creative destruction or just a successful enterprise? I would conclude that Spotify is a great example for the approach of Creative destruction. The service of Spotify created a place in the music industry, that didn’t exist before. Simultaneously the old placeholders like physical record sellers or were put under a lot of pressure by the new competitor. Their revenues decreased vastly and there were presumably some people who have lost their livelihood to this rivalry. Regardless of the damage done to the old music industry, new opportunities were created and it was possible for some companies, as I mentioned before, to change their agenda into more digital methods like licensing rights or marketing. The music industry seen as a whole, is growing yearly since 2014, streaming has a huge part in this growth. Our way of listening and dealing with music has changed over the last decade, so did the industry.

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# The Destruction of the DVD by Sony's Blu-ray Disc

*Mathis Röbbel*

## Creative Destruction

The term “creative destruction” was mainly coined by the Austrian-born economist Joseph Schumpeter in his book *Capitalism, Socialism and Democracy* first published in 1942. It describes the process of constant innovation in economics which leads to the invention of new products that end up replacing the outdated ones. The roots of this concept go back to the 1840s to Karl Marx's analysis of capitalism in works like *The Communist Manifest* or *Grundrisse* in which he explains that constant revolutions of the industry, inducing the destruction of productive forces, to be a natural tendency of capitalism (Elliott, 1980). Schumpeter (1942) has a very similar approach as he views the “process of Creative Destruction [...] [as] the essential fact about capitalism”. He believes that the economy is an organic and dynamic process (“Creative Destruction”, 2021). The state of permanent competition that comes with capitalism forces companies and establishments to seek for profit by coming up with improved or totally new productions. Since it can be very hard to produce the same products, in the same way as businesses that already have certain supremacy in one specific production, it can be easier to invent different products and new methods of production and transportation that have new and improved benefits to grow your business. Therefore existing companies, products and systems have to be destroyed to provide resources to competitors and give them the opportunity to revolutionize the market and enable it to grow (Schumpeter, 1942). “Over the long run, the process of creative destruction accounts for over 50 per cent of productivity growth”(Caballero, 2010). It can lead to large improvements in current conditions and living standards but it also has a downside. Creative destruction can lead to positive, but also negative fluctuation of the market since there is no guaranty that the constant revolution, that is necessary, always turns things to the better. It can also lead to an unnecessary or even worse production and therefore be a waste of resources and energy. Other negative effects of this concept are the losses of jobs that comes with the destruction (Caballero, 2010) and the constant pressure or even fear of upcoming revolutions that can provoke conflicts and problems for society and the environment (Guiltinan, 2009)

## **Sony Group Corporation**

With revenue of more than 80 billion dollars and 109,700 employees in 2020 (Corporate Report 2021) the Sony Group Corporation, commonly referred to as Sony, is the third largest company of the Japanese tech and media industry. It started out as a small radio repair shop founded shortly after the Second World War in Tokyo that rapidly gained attention through the production of shortwave adapters. On May 7<sup>th</sup> 1946 Masaru Ibuka, the founder of the store, and Akio Morita officially founded the Tokyo Tsushin Kogyo or the Tokyo Telecommunications Engineering Corporation. They started out with producing different electronic devices like a rice maker that was not very successful, but when they started developing tape recorders their business began to grow. In the late 1950 they changed their name to Sony as they started exporting large numbers of portable radios into the United States and where looking for a more international sounding name (Gershon et al., 2019). The size of the company increased rapidly and new, revolutionary products like the Walkman, Discman, digital cameras or the PlayStation kept adding on to its production. Sony also started diversifying early on by opening up new branches with different products and services. Today it is a multi-industry company with their main revenues in game and network services, closely followed by electronic products and financial services. Other important sectors are music, imaging and sensing solutions and pictures, which mainly refers to movies (Corporate Report 2021).

## **The Blu-ray Disc**

Creative destruction has always been in play when it comes to Sony. As mentioned in the abstract above it has introduced many new products that changed the market forever. Famous examples would be the introduction of the 3.5 inch floppy disk that soon replaced the common 5.25 inch floppy disk, the world's first videocassette format, or the invention of the Walkman, a tape recorder and player, that became the first portable music player and later on fell victim to Sony's own creative destruction by the CD format and the Discman.

This paper however will not further cover any of these cases but instead elaborate on the introduction of the Blu-ray Disc (BD) that ended up replacing the Digital Versatile Disc (DVD). First developed in 1995 and released in 1997 the DVD is a digital optical disc data storage that could store any kind of data, but was most used for storing computer data or watching movies

using a DVD player. The Disc was mainly supported by Sony's competitor Toshiba and is able to store up to 17.08 gigabyte (GB). In the early 2000 the amount of movies and shows filmed in high-definition (HD) increased rapidly and since a two hour long HD movie needed around 45-50 GB storage capacity there was a need for a better storage unit (Chang, 2013). In 2002 Sony and 8 other major technology and media companies formed the Blu-ray Disc Association (BDA) that introduced the BD. Both discs used a laser technique to read the it but the new, blue laser from Sony enabled it to store data at a greater density than the red laser used for DVDs. The standard BD could store 50 GB and go up to 128 GB with multiple layers. The BDA and Toshiba both tried to convince as many movie and software producers to support their product as possible and even though Toshiba introduced the HD-DVD with up to 30 GB storage shortly after the BD more and more producers started a partnership with the BDA. Especially their stronger stronger and more adaptable copyright system (Chang, 2013) convinced many. Another factor was that with the introduction of the PlayStation 3 Sony combined the very popular video game console with a BD player which made them more affordable. After that most content producers supported the BD but when Warner Brothers joined the format in January 2008 Toshiba decided to finally stop the production of the DVD a few months later.

## **Reflection of Management Methods**

Next to the numerous technical advancements that came with the BD like the high data storage Sony also used different management methods to a support the BD format and make the change away from the DVD as easy as possible.

One of these methods was the focus on networking by establishing the BDA. By inviting 8 companies to join their association from the very beginning Sony did not only tie them to the BD as their main format by creating a strong structure of membership, but also included them in the research and development process (Scott, 2008). They made it easy for all members to add their new ideas and criticism to the production and therefor made the best possible product for everyone involved. It was very important for Sony to include every new company that decided to use the BD to fulfill their personal needs. This process later led to the introduction of the improved copy right system that played another import role in winning new companies over.

Another method Sony used was the introduction of the PlayStation 3 in 2006. The PlayStation 2, that was released 6 years before, was a great success and sold over 100 million units, giving Sony

70% of the market (The Economist, 2005). Even though it was a risk to include a BD player in the new PlayStation 3 because they still had some technical issues Sony did it anyway and with that successfully brought a BD player into millions of homes around the world (Chang, 2013). This in combination with numerous pro BD interviews with famous directors led to a strong increase in sales of BD in the following years.

By using these techniques and the willingness to take certain risks Sony convinced many major content producers to use the BD as their standard format for high definition movies which ultimately led to the destruction of the DVD.

Toshiba later on announces that the loss of the DVD can be explained with the rise of the digital video download business and even though at that time that argument was not really true because it should have affected the BD just as much (HD DVD, 2009), in the following years the BD did fall victim of the next creative destruction by digital videos and streaming services that ended the short period of victory for the BD.

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## **Netflixed: The Act of Transferring a Business to Streaming**

*Tom Alexander Schmidt Steinberg*

Over time society has witnessed a constant change of hands in terms of who leads the market. Joseph Schumpeter (1942) believes that capitalism by nature can never be stationary and has an evolutionary character. Furthermore, social, and natural environments are often conditions of industrial change, however, those are not prime factors of the capital process. Therefore, he developed a concept named creative destruction and considered it “the essential fact about capitalism.” It refers to the process of how innovation changes the prevailing business model of an industry by transforming production or marketing techniques, and how these can cause the economic structure to change from within, destroying the old one and ceaselessly creating a new one. It can even change the final product itself.

Joseph Schumpeter was an Austrian-trained economist, economic historian, and writer considered one of the greatest intellectuals of the 20th century. Through the years, there have been several examples of creative destruction, a historical case is Henry Ford's assembly line and how it revolutionized the automobile manufacturing industry. An example of this in the 21st century is Amazon, the company founded by Jeff Bezos. His firm revolutionized shopping by making it easy for customers to buy almost anything they need online. Another company that is part of this selected group is Netflix, which will be the one tackled during this chapter to demonstrate why it can be considered a case of creative destruction showing their innovations, how they changed the industry and what happened with their competitors.

It is considered that in the late nineties the new economy started, as high-tech tools began to play a significant role in the market, such as customers increasingly having more capable computers in terms of power, and more people having access to the Internet (Laffey 2006; referenced in Schneider. H, 2017). It can be deemed that the founders had the perfect timing to set up a business. In 1997, Netflix was founded by software engineers Reed Hastings and Marc Rudolph as a DVD rental business. According to Hastings, there was a gap in the market because the competition was charging high fees for late returns, and he saw it as an opportunity for differentiation to develop a more customer-friendly model. (Littleton, C., Roettgers, J., 2018; Au-Yong-Oliveira, M., Marinheiro, M., & Tavares, J. A. C, 2020). This can be seen as an example of entrepreneurship

because they found a necessity or a gap in the market and started offering a solution. As stated by Henrique Schneider (2017) “creative potential is at the root of Schumpeter’s thought: entrepreneurs discover novelties and market them. This is the analytical core of creative destruction.” Entrepreneurship can be considered as the starting point of the concept by Schumpeter.

One comment that John Komlos (2017) made which can be related to creative destruction is that: “in his dynamic conceptual framework entrepreneurs invented new products or new ways of doing things to increase efficiency, improve quality, or lower price”. According to the above, entrepreneurship could be a starting point, but to penetrate the market one must incorporate innovations. Netflix's first game-changer was DVD rental by email; it was developed in April 1998. It was a risky move given that VHS was dominating the market and only 2% of the population owned a DVD player in 1998, but it clearly shows how innovative their strategy was since the beginning and inferred that these decisions were implemented to increase the quality of the service, resembling the conceptual framework that occurred during the decade.

The following year Netflix changed their payment method subscription fee, and the customers could rent DVDs paying a fee per month (Au-Yong-Oliveira, M., Marinheiro, M., & Tavares, J. A. C, 2020). The strategy by Netflix, consisting of the change to a subscription model, helps the company to forecast the revenue more accurately and reliably, boost retention rates, improve inventory management and, be more capable to anticipate demand and supply more accurately. All of this contributes to the company's efficiency.

2007 was the year that the co-founders understood that Netflix would not grow up anymore, and with the digital transformation affecting almost every business, they concluded that it was time to develop a new plan to tackle the customer's demands. Therefore, they started offering the option of streaming, movies, and even a couple of TV shows. This new option quickly became popular and was now a priority. In 2013, based on that analysis of customer data, Netflix started producing its content. (Au-Yong-Oliveira, M., Marinheiro, M., & Tavares, J. A. C, 2020). The plan was a revolution for the industry. Giving the customers the chance to watch everything that the platform offers wherever and whenever they want.

All these innovations would not have been developed if no one had worked on them. According to the ex-chief talent officer of Netflix Patty McCord, who wrote in a magazine article in 2014

about how Netflix reinvented HR. They did that by being transparent and direct. The company asked its employees to rely on logic and common sense, rather than formal policies: hire people who put the company's interests first, who understand and support the desire for a high-performance work environment, and who communicate how the company makes money and what behaviors will drive its success.

In 2021, Netflix's membership surpassed two hundred million, and provided their streaming services to more than one hundred ninety countries and twenty-one languages around the world (About Netflix - Homepage, n.d.). Based on Schneider, H. (2017) in the Schumpeterian sense, the clear-cut disruptor would not stop disrupting until the entire previous industry obliterates and the innovators can take all the benefits from destruction. as reported by the National Telecommunications and Information Administration:

*“Americans increasingly are moving away from cable and satellite pay-tv services and opting to stream online video offerings, data from NTIAs latest Internet Use Survey show. While most households still subscribe to cable or satellite television services, the survey shows the proportion of Internet users watching videos online has grown from 45 percent in 2013 to 70 percent in 2017.” (Carlson, 2019)*

Consumers of pay-tv services have declined across all age groups, but younger Internet users are more likely to watch online videos than their older counterparts. 86% of Internet users aged 15-24 watched online videos in 2017, compared to only 40% of users aged 65 and older (Carlson, 2019). This states that pay-tv services still have a part of the market. However, it does not seem to have much future in the market because the younger population will last longer on Earth, tends to switch away from the traditional television service. In accordance with Jenner, M. 1. (2018): “Netflix is a driving force in changing how television is organized and will be organized in the future”.

The current pandemic is considered a prime factor that is accelerating this change. Based on the Ofcom Media Nations 2020 UK report the greatest growth in the average amount of time people spent watching audiovisual was in subscription video-on-demand (SVoD) services, with viewers watching an average of 1 hour 11 minutes a day on these services in April 2020 – 37 minutes higher than in 2019. Thanks to this rise in member subscriptions from March 2020 till the end of 2020. That year was the highest growth of membership for Netflix in the last 5 years (Kastrenakes, 2021; referenced Pisal, S. 2021). Taking all this into account, the television industry is going downhill at the same time as the subscription video-on-demand industry is increasing rapidly.

What happened to Netflix's competitors is that they went bankrupt, focused on a different industry, or adapted to the new industry. A famous competitor of Netflix was Blockbuster, an American-based provider of movies and video games rental services. In 2000, Reed Hastings approached Blockbuster with a merger proposal: Hastings was offering 49% of his company for \$50 million, and the Netflix team would run Blockbuster's online brand, they refused the offer. Ten years after the merger proposal, Blockbuster was delisted from the New York Stock Exchange and filed for bankruptcy, having incurred nearly \$1 billion in losses. For comparison, in 2021 the market capitalization of Netflix was 272 billion dollars. This is a clear example of an innovator bringing about the obsolescence of a competing firm whose management lagged and failed to seize those opportunities (John Komlos, 2017). Currently, Netflix is at the forefront of the streaming industry, competing with Disney+, Amazon Prime, and Apple TV, which are the companies that have adapted to the new age of entertainment.

Market leaders change with the passage of time in all industries. Netflix is the current leader in its sector, and it has achieved this by finding a gap, innovating, and making significant decisions. In addition, managing to change its entire industry, and leaving its competitors behind, some even going bankrupt. For these reasons, Netflix is an example of creative destruction, the concept created by Joseph Schumpeter.

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## **To What Extent is the Theory of Creative Destruction Applicable to Amazon?**

*Ferdinand Wulf*

### **What is Creative Destruction?**

In the world of entrepreneurs, the term “creative destruction” basically means, that something is “destroyed” and replaced by something more innovating. This replacement is more efficient, more productive, has a new technology etc. (Carol M. Hopp, 2021)

“Creative destruction” was first framed by the Austrian economist Joseph Schumpeter, he stated that whatever industry you’re in, someday there will be a technological innovation that revolutionizes the industry, by being more efficient, having a new understanding of a problem or doing something different, and that will destroy the old processes that were used before. (Shereen Saraf, 2020) That may sound sad, but it is the circle of life. A good example for the process of “creative destruction” would be “survival of the fittest”, because both processes end up by having one party survive, because they were the best in what they were doing, by any means. It’s the same in the nature, as it is in the business world with big companies being extinguished by companies that are more innovative.

It becomes clear that the process of “creative destruction” sounds very hard or inhuman, as there are companies or technological innovations that just destroy other, but you can also view it as a process that helps the market by freeing up energy and bringing power to the market and lastly to the consumer. (Carol M. Hopp, 2021)

The effect of that is that the market will always grow and be stronger in the future and in the end, that is what the economy is targeted for.

### **Introducing Amazon**

To introduce Amazon, I’ll have to get further back to the Founder and today’s Executive Chairman of the Board of Directors, Jeff Bezos.

Jeff Bezos was born in 1964 in Albuquerque, at age 30 he founded Amazon.com in 1994. His idea was to sell books via an online platform. The idea started out of his garage and ended up being a



multibillion-dollar company. The name “Amazon” was besides the other suggestions like “relentless”, “cadabra”, “browse” and “awake” the best because it defines how big the range of products is, by referring to the great river, the “Amazonas”.

With over 20,000 employees in Germany and over 1,5 million worldwide, Amazon counts as one of the largest companies to ever exist.

When you first think of Amazon you think of its big online marketplace. But Amazon has a lot more to offer and its income stream is not only the online marketplace. Amazons’ income is divided into four different streams. The first and biggest income stream is obviously the online marketplace. Here, customers can buy literally everything they want. From Sports jerseys to kitchen supplies. Amazon has a wide range of products to offer. What makes the online marketplace so special and successful is, that it is customer experience oriented. (Built to Grow, year unknown) Like Jeff Bezos said: "There are three big parts behind Amazon that are the reason for our success: **The customer comes first**, inventiveness and patience." (Jeff Bezos, year unknown)

The second income stream is “Amazon AWS”. “AWS” means Amazon Web Services and is basically a service to save and analyze data in all different forms and places. “AWS” generates 12% of the general revenue of Amazon and ca. 35 billion dollars in 2019.

The third income stream is “Amazon Prime”. “Prime is separated into two pieces of customer service. The first is the fast delivery service that provides the customer with the promise that the package they order on the amazon marketplace will be delivered within 24 hours. That itself makes amazon remarkable in terms of customer experience and how they are willed to perform the perfect experience for every individual customer. The second piece of “Prime” is the online streaming platform. For 7,99\$/month customers get access to Movies, TV Series, Songs and E Books. (Built to Grow, year unknown) To grow their movie selection, amazon bought the well-known Hollywood Studio “MGM-Metro Goldwyn Mayer”, so customers now have access to exceptional movies like “James Bond” or “Rocky”. (ZDF, 26.05.2021)

The fourth and smallest income stream is the stationary marketplace. Even though amazon is the biggest online marketplace, they do have some “offline” marketplaces. Those supermarkets are more of a big thing in the US rather than in Germany. This project started in 2017 as amazon

bought the company “whole foods” for 13,4 billion dollars. There are more than 450 of those markets and they generate a yearly revenue of roughly 4 billion dollars.

Amazons’ great success doesn’t come from nowhere, it strictly follows the guidelines of the “Amazon Flywheel”. “Amazon Flywheel” is a concept, that visualizes certain work steps that are necessary to their accomplishment in the entrepreneurial world. It all starts with the target “growth”. Growth leads to more resources and more resources lead to less costs that amazon must pay in order to get new items in stock. Lower prices for amazon mean lower prices for the customer. Lower prices for the customer mean higher customer experience. With higher customer experience comes more traffic. The higher traffic ends in more sellers and more selection and that finally results in better customer experience. That process continues like a circle and soars up like an upwards spiral that creates growth and a better customer experience. Both are essential for Amazon’s success. (Built to Grow, year unknown)

To make it evident that amazon’s success is built on customer experience I’ve looked at all the letters from 1997 until 2016 that jeff Bezos sends to his shareholders that buy amazon stocks. In those letters Jeff Bezos gives an update to the shareholders about the performance of the business year and what the goals are for the next year. In order to make it clear how important customer experience for amazon is, I stated out some of the quotes that were written in the letter of 97’ and then compare it to some of the quotes that were written in the letter of 2016.

In the letter of 97’ Jeff Bezos said “Accordingly, we want to share with you, our fundamental management and decision-making approach so that you, our shareholders may confirm that it is consistent with your investment philosophy: we will continue to focus relentlessly on our customers.” Or “We dramatically lowered prices, further increasing customers value”. (Jeff Bezos, 1997)

In comparison to the 2016 letter, Jeff Bezos quoted that “In my view obsessive customer focus is by far the most protective of Day 1 vitality.” With “Day 1” he means the spirit and energy that exists in the first day of creating a business and he always says that amazon is daily into the status of day 1, because if they move to day 2, they’ll lose the motivation and amazon would slowly become to rest. (Jeff Bezos, 2016)

I hope it became clear that the attitude of Jeff Bezos of relying on customer experience (lower prices, great selection and fast delivery) never changed since day 1 and will continue to be the reason for amazon's success in the present as well as in the future.

## **Applying the Theory of Creative Destruction to Amazon**

Amazon revolutionizes the purchasing behavior of the new generation, by being smarter, faster and more comfortable for the end consumer. With its great selection and fast delivery, amazon outperforms a large group of companies who neither have the same capital or selection. The consumer has no argument for going in malls or shopping centers, because most of the products there, are also available online and in most cases, even cheaper. Another argument for the consumer to shop on amazon is the fast delivery. Through "amazon prime" products are delivered within one day after purchasing. Amazon also pursues "creative destruction" on the movie industry of the early 2000s. 20 years ago it was normal to go in a video library and rent a film and watch it at home. With "amazon prime" people are able to purchase and rent films online. With that switch from offline to online renting of films, there is no purchasing argument behind video libraries. That's why almost if not every video library died in the past 20 years. In that case the theory of "creative destruction" is applicable. The theory of creative destruction is also applicable to the local "real" shops of other brands. Because amazon also sells branded products from "Apple", "Microsoft" and "Sony" etc. on their marketplace Those brands are not getting "destroyed", because amazon only takes a small percentage commission, and the main profit gets back to those big companies. If amazon would make and sell their own smartphones, computers and stuff that's normally branded from big companies, then the theory of "creative destruction" would be applicable to the local "real" shops as well as to the brands and the companies behind those shops. That may sound terrifying, but it is normal and expected, because technology and the economy changes from time to time.

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### **III. Evolutionary Theory of Economic Change**



## **Rejecting Consumerism and Drawing Consumers: Patagonia's Perception of Social Responsibility as a Factor Driving Demand**

*Julia Bogusz*

### **From Love of Rock Climbing to a Billion Dollars**

Patagonia is a 49 years old private benefit corporation that is mainly known for its iconic outdoor gear and the rejection of fast fashion by creating long-lasting, high-quality products. It was founded in 1973, and is currently based in Ventura, California. (Highsnobiety.com) Its name is a reference to a geographical region in South America.

The founder of Patagonia, Yvon Chouinard, initially fell in love with rock climbing as a 14 years old boy. His passion continued for many years. In order to improve his climbing experience and also wanting to save some money, Yvon started making his own climbing equipment. After some time, he stopped doing tools just for him by beginning to forge climbing pitons out of scrap metal and selling them for \$1.50 per one. (Carey R., 2019)

For years, together with his friends, Yvon led the lifestyle of a rebel: constantly on the go; evading park rangers after exceeding camping limits; spending about a dollar a day; feeding on hunted squirrels and canned cat tuna. However, in 1965, together with a fellow climber, Tom Frost, he turned his passion into a business – Chouinard Equipment. In five years they became the largest suppliers of climbing hardware in North America (Patagonia.com).

Gaining supportive consumers thanks to ethical decisions, being in the right place at the right time, following the quality and usability of products, the business evolved into a full-fledged Patagonia – a large, profitable business selling its products all around the world. In 2019, the company's sales have exceeded 1 billion and Patagonia's owner, Yvon Chouinard, has a net worth of \$1.5 billion in 2019 (Semuels A., 2019).

### **To be Ethical, or to Be Profitable, That is the Question**

The example of Patagonia shows the concept of responsible business management in society implemented through corporate entrepreneurship, as it is constantly developing new innovative ideas/products/services in an existing organization, and encouraging their employees to contribute



effectively by the work's environment culture and staying truthful to their core company foundations. In this way, Patagonia shows that being ethical and profitable at the same time is possible.

Patagonia connects with those who believe in their cause. In this way, it collects loyal customers who buy their products on a regular basis. By aligning activities to environmental objectives they reduce consumption and waste (Carey R., 2019). To achieve that, they maximise the use of organic and recycled materials, and they repair the damaged clothes. (Highsnobiety.com) Making strong and durable products as a hallmark attracts consumers who are able to spend more money on one product, than buying more products for less.

Customers are also willful to pay more due to believing that they contribute to protecting their home – the planet Earth. This way Patagonia can charge premium pricing, as their customers understand that high sustainability standards lead to higher costs than those implemented in most fast-fashion companies. Moreover, Patagonia develops infrastructure to educate the people and to recycle materials (Carey R., 2019). This approach helps in convincing more and more new customers to Patagonia, as raising awareness raises education quality, and the more educated society is, the more educated customers they gain.

Although business development is not their utmost goal, their revolutionary approach makes the company continue to see more growth year after year (ecommerceDB.com, 2021). Several factors are contributing to that success, and one of them is wisely conducted marketing.

Patagonia has a very clear identity, and its brand characteristics are important to modern-day consumers. Their products appeal to all genders, no matter what their occupation is. They gain brand recognition by promoting important causes. The company invests in short films, uses social media promotion, partners with brand ambassadors, and has an exciting, visually appealing social feed. Moreover, they use their voice to speak out about important social issues, like politics, or inequity. For example, during the 2020 presidential elections, they encouraged their customers to vote by sewing the words “vote the assholes out” on the tags of their clothes.

Some other examples of actions that made them gain more recognition are: self-imposed Earth tax – 1% for the planet; a 2011 Black Friday ad that encouraged people to not buy their products; since 2016 donating 100% of their Black Friday sales to organisations fighting for environment

(Marcario, 2016); or Worn Wear Truck touring through the United States that repairs the items and extends the life of the gear. (Patagonia.com)

Furthermore, Patagonia managed to create a culture, where employees feel valued and supported. This approach allows to keep good and ambitious workers for long, as well as increasing the chances of producing innovations needed for maintaining the company's core fundamentals, and more growth. In 1983, Patagonia started offering on-site childcare and paid maternity and paternity care to all new parents. In 2019 Patagonia provided \$109,000 subsidies to its childcare programs for employees and \$178,000 for childcare to employees who don't have access to its childcare programs (Patagonia Annual Benefit Corporation Report, 2019).

Besides, they introduced an employee cafeteria in Ventura that serves healthy and organic food. Additionally, there is no strict dress code at their company, or office walls. The company gives their employees the possibility to enjoy the outdoors by sponsoring ski trips (Samuels A., 2019), or by creating "Let My People Go Surfing Policy", which introduces flexibility to work schedule and gives employees every second Friday off.

Patagonia tries its best to offer benefits that reflect its values. Another example of that is encouraging employees to actively support the planet, and if some of them get arrested for protesting for the environment, Patagonia pays their bails.

Why does this policy work and how it benefits the company? To answer that, I'll use a quote from Yvon Chouinard: "Every time we've elected to do the right thing, it's turned out to be more profitable.". Thanks to the happy workforce nearly 100% of new moms return to work at Patagonia, and Patagonia's turnover rate of only 4% is surprisingly low in comparison to the national average (Patagonia.com).

This approach to tackle the power of innovation, whilst keeping the benefits of being a large company, allows Patagonia to hold on to its competitive advantage and continue to see more growth each year. Their business structure and culture of increasing productivity and employees morales, allow them to innovate successfully.

Patagonia's online store generated approximately \$365 million in net sales in 2018. On top of that, 92% of its online net sales are generated in the USA (ecommerceDB.com, 2021). Moreover, Patagonia's online global net sales have reached roughly \$234.4 million in 2020, which is 17.4%

more than in 2019 (ecommerceDB.com, 2021). Although Patagonia has always been promoting anti-consumerism, the company is worth \$1 billion in 2018 (Danao & Danao, 2018).

## **What Lessons Can Managers Learn from Patagonia's Example?**

We can assume that this approach is strong, and draw from it an inspiration for present and future entrepreneurs. Although, it is worth taking into consideration, that the success of Patagonia is not only made from ethical choices, but also from well-known recognition built upon many years thanks to starting the business at the right time, in the right place. Yet still, ethics are something that everyone responsible should consider. “There was no accountability. Businesses were immune because no one was being held accountable. Now it's essential to show students the rewards of doing business ethically while still achieving a financial reward” – a quote from Cal Boardman, Professor Emeritus at The University of Utah. (Norton J., 2017)

One of the intriguing conclusions, that can be taken out of Patagonia's example, is an idea of anti-marketing becoming successful marketing. Their “Don't Buy This Jacket” ad raised awareness and brought appreciation from the consumers. Anti-marketing is cheaper than the alternative, or in some cases even free. It allows making money in the long term, rather than in a short term.

Another vital conclusion is acknowledging that companies with bigger meaning than collecting money gain better employment engagement and higher customers loyalty. It seems that purpose drives profit and creates a competitive advantage.

Last, but not least, we can see from Patagonia's example that product innovation and making durable, sustainable items allow to sell them at higher prices and higher volumes. This leads to increasing the revenue, meaning that investing in design and good quality materials may bring better company performance.

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## **Tradition, Family, and Innovation: Trigema – An Evolutionary Firm in Germany**

*Jens Klemm*

### **The Concept in Play: “An Evolutionary Theory of Economic Change”**

This chapter will be relying on Dick Nelson and Sidney Winter’s book “An Evolutionary Theory of Economic Change” published in 1982 which consists of an evolutionary approach to a firm. The theory is, amongst others, based on the principle of evolutionary theory, which refers to Charles Darwin’s well-known phrase “survival of the fittest”. The theory criticises the orthodox (neoclassical) approach, which first targets the maximisation of profits. Nelson and Winter’s idea is the surreal link between those two approaches through which a firm does not necessarily achieve its goals by being the most profitable firm but by striving for long-term success. The firm that survives the harsh economic climate is the one that is able to adapt to the current business and market environment: “[...] *the organisation will either have to adapt its routines or see them seriously out of control*” (Nelson, D. & Winter, S., 1982, p. 115).

Therefore, a dynamic selection process takes place in which a firm succeeds over another firm by being the one that follows the future path – by investing and innovating. This leads to a more heterogeneous market as businesses do not only imitate but also attend to future problems themselves.

The theory consists of three main pillars that describe routines, the change of routines, and the idea of a selection process within a business. Firstly, routines are seen as a set of rules that must be followed, but it is not that simple as these rules can be mandatory because of an existing contract or due to the informal traditions, norms, and values a business has. For instance, routines can be given working hours, instructions, or informal handbooks of manners.

Secondly, the theory mentions the intentional change of the described routines, which means that the routines would change once a task is not profitable enough anymore. If the satisfaction of profitability is not achieved, then the task is most likely to be adapted to the situation and then the search for changing routines goes on until satisfaction is restored. This is different from the orthodox approach, as profitability is defined differently as it is a matter of satisfaction within a

specific task rather than raw profit – a task that may be profitable enough for this theory might be winnowed in the orthodox theory.

Finally, the third pillar is about the idea of selection. This “selection process” is driven by the business market, consequently, new routines are selected via market competition. The market environment defines success for businesses: if they can adapt, they are more likely to survive and grow. So, to say, firms are certainly motivated by profit but do not necessarily seek for maximisation.

The theory deals with economic change, which is approached by using Darwin’s aspects of evolution, decision-making by searching for new routines, and market competition. Furthermore, it describes the adapting process of firms in which the firms pay more attention to the process of learning, motivating, accumulating knowledge, developing within routines, and seeing a firm as a creator and creative part of the market.

### **Case Description: Trigema**

The only firm in its respective field that still advertises “100% Made in Germany” is the 1919 founded firm “TRIGEMA Inh. W. Grupp. e. K.” (“Trikotwarenfabriken Gebrüder Mayer”), a registered merchant. It is one of the last fabric and clothing firms that entirely produces their goods in Germany, with the yarn coming from Greece. The firm resides in Burladingen, in the South of Germany, Baden-Württemberg, and is now an icon in the world of digitalisation and globalisation. It is Germany's number one producer when it comes to sports- and casual wear. Also, since 2006, it produces entirely sustainable clothes made of 100% organic wool.

Wolfgang Grupp, general manager and sole owner in the third generation, understands the economy and his tasks to be something enriching for society and that he has a responsibility to attend to the well-being of the community (Hildebrandt, A. 2018). Grupp does not agree to mass produce but rather to steadily innovate: *“I am not a social scrounger; I am a capitalist. I do not see why I would have to increase my profits [year by year] if I count the cost eventually”* (Hildebrandt, A., 2018, p. 159). His opinions are unusual, but success is the best indicator as 1200 employees have not had the experience of reduced working hours for 50 years with the business always being busy, even during the Covid-19 pandemic.

Besides the main production in Burladingen, there are branches in Altshausen and Rangendingen. These three locations are responsible for fabric production, dyeing, tailoring, and refining. In addition to the production locations, Trigema has 45 so-called “test-stores” and owns three gas stations in and nearby Burladingen (Trigema, n.d.). Trigema is a family business with his wife and his children working there. Grupp (Hildebrandt, A., 2018) described that one day, only one of the children will inherit the business (p. 167). Next to work, Grupp and his wife Elisabeth Grupp are also highly active with community work as they set up a foundation that was made to help the community in a quick and nonmanagerial way. In Addition to the sponsored ambulance and gym, the foundation also supports the German Leukaemia Aid Organisation (Trigema, n.d.).

### **Application and Reflection of The Concept on The Case**

The following chapter will be based on the theory of “An Evolutionary Theory of Economic Change” (Sidney, W. & Nelson, R., 1982) and will deal with the application and reflection of managing principles at Trigema (Hildebrandt, A., 2018; Renner, E., 2017; Müller, S & Coerper, A., 2010).

Grupp is known to be an unconventional manager for his opinions towards his employees and economics. An example of his traditional ways of managing include being the sole owner, sitting in the open space office as everyone else does, saying that only one of his children will inherit the firm, making decisions by himself, and taking full responsibility for his actions. Furthermore, for Grupp *“success is only possible if one sees through the ages, develops, and innovates as fast as possible with their resources and one needs to be ready to be liable for bad times”* (Hildebrandt, A., 2018, p. 166).

Going on with the firm’s philosophy (Trigema, n.d.), it simply consists of fair wages for the employees, a right to be heard in important firm decisions, 100% sustainability within the whole production process as well as the products themselves. This at first might seem like a description of any other firm, but one can see that there is much more to it than just an orthodox way of managing. Grupp says: *“My employees are the most essential part of my firm. I need them and I want them to need me, or I would not be useful anymore”* (Renner, E., 2017).

His way of thinking is certainly motivated by profit, but he does not exhort the aim of profit maximisation, as he could have laid off employees during Covid-19 to generate fewer costs during



the crisis but did not do so. He implies that the employees work way better when they are paid well, are taken care of, and can bring their own family into the business, as Grupp offers every child of his employees a job after they are done with school. Moreover, Grupp also said in the speech he gave at a congress: *“Just because I felt like it, I could say: ‘you are fired!’ That was not possible for me. I knew the employee, he worked his fingers to the bone, so I could make money. Yet I had a conscience unlike other managers”* (Renner, E., 2017).

The routines that are observed in multiple documentations and are clear: punctuality and time management are very important. Grupp’s pilot even sweeps the floor between the flights (Müller, S & Coerper, A., 2010). Over time, these routines have been fine-tuned to be the best they can be. This is an example of inheritance, like Winter, S & Nelson, R. call it, as some workers might end up doing the same thing as the previous generation with few changes, making the process run like a well-oiled machine.

The change of routines is described by variation and selection and can be shown perfectly by referring to the Covid-19 pandemic. In the pandemic, Trigema started producing face masks which was a selection process influenced by the market, as masks were deeply needed and in some states at that time, mandatory. Therefore, Trigema adapted their range of goods and changed their routines to provide the customer with masks. In this case, an example of variation is if the janitor changes his task from routine cleaning to disinfecting machines, door handles, desks, etc.

In general, the theory describes how a specific approach to managing occurs. Looking at Industry 4.0, not many businesses manage the way the theory describes, as most of them follow the procedure of profit maximisation through outsourcing – generating fewer costs. Trigema is the last business (in Germany) in their field that seems to follow this approach by not outsourcing to Asia and producing for lower costs, nor hesitating to invest in the right things at the right time (Hildebrandt, A.; Müller, S & Coerper, A.). Yet, this could be seen as a con for the chosen theory, as there is no direct competition that produces in Germany anymore. This theory looks at both the market environment and the dynamic selection process through which businesses create a competitive environment. This competition allows some businesses to be more successful than others and grow over a different span of time. Also, Trigema could be seen as inflexible, as in a meeting about the possibility of a new colour on an existing product Grupp said: *“Not with me. I say no, so it is a no!”* (Müller, S. & Coerper, A., 2010). He is steadfast in his decisions in this

regard. This does not fit into the theory, as he lacks the motivation and interest to try new possible garments.

Despite this, Trigema has proven its ability to adapt to current situations like Covid-19 and succeed with innovation as they continue searching for routines to be more satisfied, financially. By having short communication ways because of its production in Germany, they are indeed very flexible. Day to day, Grupp decides to stand up for his workers and reaps the reward of a successful business.

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# **An Evolutionary Approach to Blockbuster's Demise**

*Florian Wabnitz*

## **Evolutionary Theory of Economic Change**

With the rise of Darwinism, multiple disciplines adapted an evolutionary paradigm. Sub-disciplines such as evolutionary psychology, evolutionary politics and evolutionary computation emerged. Yet, there is an evolutionary approach to economics as well. Certainly, evolutionary economics is little discussed. But that doesn't make it less captivating. It's a field in which academics explore possible solutions to vast issues we face. In fact, the Third Annual Conference: Understanding Social Macroeconomics, hosted by the ESRC in late 2020, featured a stunning discussion on evolutionary economics.

In the first part, I will give a succinct overview on Nelson and Winters theory developed in the 1980's. Due to limitations imposed on that chapter I will leave out explaining Schumpeter's ideas. For that, please refer to other contributors in this book. The following part covers a brief history of Blockbuster, a movie retailing company that went bankrupt in 2010. Next part focuses on the deductive application of Nelson and Winters theory discussed in their book "An evolutionary theory of economic change" to Blockbuster from a reflexive managerial standpoint. Finally, an evaluation on the applicability of the theory can be found the closing part.

## **From Orthodox Economics to Evolutionary Economics**

Currently, we look at economics in an "orthodox" (Winter & Nelson, 1982) way, that was built on the now mainstream neoclassical economic school of thought, which is constructed upon the foundation of Voltaire, Bentham, Montesquieu, Smith, and Hume. However Winter argues that, "neoclassical theory [...] has been strikingly unsuccessful in coming to grips with the phenomena of technological change, and relatedly that theory stands as an obstacle in thinking about microeconomic phenomena and macroeconomic phenomena within the same intellectual frame." (Winter & Nelson, 1982, p. 232). Unlike the neoclassical model, Nelson and Winter propose that "maximizing behavior" (Winter & Nelson, 1982, p. 14) can't be right because it lacks the component of "Schumpeterian competition" (Winter & Nelson, 1982, p. 29) and "technological change" (Winter & Nelson, 1982, p. 29). For them, profitable companies grow due to investment

in innovation rather than maximization. Through growth, firms gain market share and drive non-innovators out of the market which before “force[s] these firms to contract” (Winter & Nelson, 1982, p. 29). It is therefore necessary to do different things as a firm (cf. Winter and Nelson 1982, p.399f.). Nelson and Winter argue that companies operate on routines. Both define routines to be a "general term for all regular and predictable behavioral patterns of firms [...]" (Winter & Nelson, 1982, p. 14). Further they state, that "if an existing routine is a success, replication of that success is likely to be desired." (Winter & Nelson, 1982, p. 121). Both authors see economic change as a consequence of Schumpeterian competition by "suggest[ing] that substitution and supply responsiveness would be a function of the quantity and quality of ‘searching’ and ‘innovating’ that higher prices draw forth." (Winter & Nelson, 1982, p. 186).

## **The Rise and Fall of Blockbuster**

Blockbuster LLC was founded in 1985 in the USA by David Cook. Its business model was to buy movies and rent them out multiple times to customers, to make profit. If a movie got returned late, Blockbuster would charge late fees. Cook sold Blockbuster for \$18.5 million to a trio of investors in 1987 who saw potential in scaling Blockbuster (Phillips & Ferdman, 2013). They made Blockbuster the media rental leader, who acquired dozens of smaller rental firms to gain market share. In 1994 Blockbuster got acquired by media giant Viacom for \$8.4 billion, who took Blockbuster public five years after (Phillips & Ferdman, 2013). Around the same time Netflix disrupted the industry with their movie-by-mail rental model. The smaller size of DVDs compared to VHS allowed Netflix to send movies straight into customers mailboxes needless of stores (John Antioco, 2011). Blockbuster was offered to buy Netflix in 2000 but turned the offer down. The company reached its peak in 2004, having 9,000 stores with some scattered globally (Phillips & Ferdman, 2013) and declined afterwards. Netflix’s growth was increasingly becoming a major threat to the customer base of Blockbuster. Blockbusters board was discontent around the strategy of offering products similar to their competitors Netflix and Redbox (John Antioco, 2011). Ultimately, Blockbuster filed for bankruptcy protection in 2010 because of 1 billion in debt (Phillips & Ferdman, 2013).

## What Would a (R)Evolutionary Manager Do?

During the rise of Netflix and other players, Blockbuster replicated competitors *routines*, such as the no late fees policy, movie-by-mail, online video rental or movie vending machines. In theory however, Nelson and Winter view "replication as being a costly, time-consuming process of copying an existing pattern of productive activity" (Winter & Nelson, 1982, p. 118). I'd say, Blockbuster, being in a "highly competitive environment" (BLOCKBUSTER INC., 2005, p. 7), didn't have time nor the assets to replicate. *A (r)evolutionary manager wouldn't have replicated competitor's routines because he knows that competition is about finding different disruptive routines, not maximizing profit.* Indeed, Blockbuster managed to reinvent routines, to some extent. For instance, by closing a deal in 2010 with Warner Bros, which allowed only Blockbuster to sell Warner's movies right after release (Shapley, 2010). Another noteworthy shift was the revenue-sharing system they established while scaling the company. Former CEO John Antioco explained in an interview for Harvard Business Review:

*"We proposed that instead of buying the cassettes for \$65 each, we would pay \$1 a copy up front but give the studios 40% of rental revenues on their titles. Eventually they agreed."*  
(John Antioco, 2011)

I argue, that in this case *contracts* were useful since they helped making new routines profitable, but generally contract commitment is something to be avoided (Winter & Nelson, 1982, p. 29). A deal with Viacom in 2004 made Blockbuster pay \$5 per-share dividend (BLOCKBUSTER INC., 2005). This was one of the reasons why Blockbuster amassed a lot of debt. Later on, in the interview Antioco regrets having Viacom sold 80% stake (John Antioco, 2011). Blockbuster was providing a "steady revenue stream" (BLOCKBUSTER INC., 2005, p. 18). Hence Viacom didn't want Blockbuster to venture change. *A (r)evolutionary manager avoids contracts that hinder future change of routines.*

In 2004 Blockbuster reacted hesitantly to the increasing demand of customers for dropping late fees by listening to them. This way they once again *replicated* Netflix's routine. This business decision resulted in them losing around \$500 million of their income in 2005 alone (BLOCKBUSTER INC., 2005). Rather than hoping the outcry would go away, Blockbuster should have been early on finding other ways to drop fees when they saw that competitors were doing it. *A (r)evolutionary manager spots changes in the industry quickly and tests whether new routines need to be implemented. He acts proactive not reactive.*

From an evolutionary economic standpoint, Blockbuster should have given disruptive innovators like Netflix and Redbox more relevance in the first place. Latter were the *Schumpeterian competition* who found new innovative ways to distribute DVDs. With that in mind, Blockbuster should have overthought buying out Netflix in 2000, since acquiring small companies was already a proven part of Blockbusters routine. *A (r)evolutionary manager stresses the importance of emerging markets and disruptive businesses and tries to find counters to it as early as possible.*

## Reflection

A famous statistician named George E. P. Box once said: “All models are wrong, but some are useful”. Nelson and Winters evolutionary approach has strengths and weaknesses. One weakness would be, that their theory assumes that all business models can change routines with the same success, disregarding economic position of the business, prevalent policies, laws, normative boundaries and firm-specific burdens. From a theoretical point of view, it would have completely made sense for Blockbuster to shut down some stores because it allowed them to reduce running costs and further to compete with online retailers. Nevertheless, they couldn’t because Blockbuster then would have to justify firing employees and the stores were their main source of income. Moreover, they would have completely given up on their decent position in the retail-store market, allowing other retailers like Walmart to massively gain market share.

The theory imposes, that companies must *search for* and implement new routines. However Nelson and Winter make a concession to their model themselves, by saying that: “a changing environment can force firms to risk their very survival on attempts to modify their routines” (Winter & Nelson, 1982, p. 400). If Blockbuster acted according to theory, they would increase their risk and expenses for R&D, marketing, and implementation. Increased risk and lower returns however are conflicting the interest of shareholders and investors, who usually look for maximum ROI. With that in mind, I could generalize that, companies acting according to the theory of Nelson and Winter are unappealing for most capital investors.

In a general business setting replication methods work. YouTube replicated Twitch’s livestreaming service, shifted their current algorithm towards favoring short videos to combat TikTok and even allows for community polls and updates, like Instagram and Facebook. This instantiates, that reinventing the wheel is not necessary to thrive.

Ultimately, this theory has its strength within the retrospective explanation on how technological advancements changed industries. But we have to be aware that, looking into the past comes along with hindsight bias. For us it is certain, that Blockbuster should have acted differently. It is clear now, that the Internet is not just a trend. Five to ten years after the dot-com crash there still is uncertainty and pessimism around online businesses.

Contrary to all weaknesses I still believe that as a manager adapting key elements out of Nelson and Winters book can make a firm adaptive, innovative, and successful in the long-term. Of course, the theory is far from perfect, but when applied in a feeble manner it can result in a company becoming less alike others by focusing on themselves whilst keeping an eye on the competition.

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#### **IV. Corporate Entrepreneurship**



## **Corporate Entrepreneurship and The Way Tesla Inc Applied it**

*Shadha Al-Iriani*

According to (Kennedy, 2018) corporate entrepreneurship, also known as intrapreneurship, is the practice of encouraging employees to think and act like entrepreneurs while working within the limits of a company's existing structure. Employees with the necessary vision and talents are encouraged to spot opportunities and develop ideas that lead to new products, services, and even business lines.

Instead of making minor, incremental adjustments, corporate entrepreneurship initiatives should generate revolutionary concepts. In addition, rather than being implemented by management, employees are more likely to lead innovation.

Although corporate entrepreneurship needs a lot of time to generate and can be costing the businesses a lot of money because it will require them to implement new ideas and different work process, we can't deny that it has many advantages such as: company Growth, Employee recruitment and retention, Increased productivity, and employee morale, existing institutions become more flexible and competitive, new businesses, products, services, or processes. (Robert C. Wolcott, 2010)

To make sure you have a successful corporate entrepreneurship system there are some factors that should be not forgotten such as making sure that the people you are working with got the right characteristics such as knowing that they have the courage to question the things that they don't know or think is not going to be beneficial for the job but at the same time they should be willing to take risks and step out of their comfort zone to follow the ideas they might have with an open mind to try new ideas and expand their work not because they will only have personal and financial gain from it but also because they want to do what they are passionate about which brings me to the last and maybe one of the most important points which being able to deal with rejection and failure of their ideas and believing that it's only going to help them move forward. (Kennedy, 2018)

In order for a company to build a successful corporate entrepreneurship they should be following these steps:

First build a team of a decision maker to manage the projects and make executive and necessary decisions, connectors (networkers) who will provide access to key partners and create a social capital that would help smoothing any miscommunication by having a wide organizational networks and long company tenure, executers who are capable of mocking up financial models, creating user scenarios, and deploying consumer marketing. Although building a team inside the company is important it should also be known that extending the resource network into good sponsors who will build a support that will justify investments with used cases, having partners from other groups that could provide access to key assets and having vendors as 3<sup>rd</sup> parties to fill production gap who will be able to go around organizational bottlenecks. (Sena, 2016)

Secondly making sure that the culture of the business is set by Celebrating hacks and workarounds, recognizing the difference between agility and flexibility and making specialists sought after by experimental teams.

Then Installing an operating system that's capable of supporting hourly test iterations by task tracking (Basecamp and Trello), real time communication using slack and google, content collaboration using drop box and other software which enables data sharing, design and production using proper design software such as adobe CC, and most importantly is being able to analyze the data by using the correct data analysis platform such as google analytics. Afterwards selecting the matrices is an operational framework that may be used to address a variety of different types of innovation difficulties inside your company. Making it a scalable practice is critical. KPIs for experimentation can help you assess how well your team and company are performing. These system metrics should be assessed independently of the innovation that is currently being carried out through it.

Another important step is Testing the components of a business separately starting the product and how will it operate to how to market for it and which financial process should be followed.

Meanwhile making sure that all the unknown assumptions and business problems should be prioritized to make sure we are well prepared when developing the plan and testing the methods and methods in a team which would finally help in reporting and producing the final output. (Sena, 2016)

According to (Kuckertz, 2017) there are many companies who follow the corporate entrepreneurship as a method in their business including as Google, Facebook, Samsung and Tesla.

In this chapter I will be analyzing the Tesla Inc company and its strategy. To understand Tesla's strategy let's first talk about the history of Tesla and how it started.

## **Tesla Inc.**

According to (Luebering Barbara A. Schreiber, 2013) Tesla, Inc., formerly Tesla Motors (2003–17), is an American electric vehicle, solar panel, and batteries manufacturer for cars and home power storage. It was named after Serbian American inventor Nikola Tesla and was founded in 2003 by American entrepreneurs Martin Eberhard and Marc Tarpenning. Tesla Motors was founded with the goal of creating an electric sports automobile. Tesla's chief executive officer (CEO) was Eberhard, and its chief financial officer was Tarpenning (CFO).

The company received funding from a variety of sources, including PayPal cofounder Elon Musk, who invested more than \$30 million in the new endeavor and served as chairman of the board of directors starting in 2004. Additional tests showed that its performance was comparable to that of many gasoline-powered sports cars: the Roadster could accelerate from 0 to 60 miles (96 km) per hour in less than four seconds and could reach a top speed of 125 miles (200 km) per hour. In company tests, it achieved 245 miles (394 km) on a single charge, a range unprecedented for a production electric car. The vehicle's electric motor was powered by lithium-ion cells often used in laptop-computer batteries that could be recharged from a standard electrical outlet. Tesla Motors found that the car attained efficiency ratings that were equivalent to a gasoline mileage of 135 miles per gallon (57 km per liter). Tarpenning, who was vice president of electrical engineering, supervising the development of electronic and software systems for the Roadster, also left the company in 2008. Despite a federal tax credit of \$7,500 for purchasing an electric vehicle, the Roadster's cost of \$109,000 made it a luxury item. In 2008 Tesla Motors released its first car, the completely electric Roadster.

Knowing the high demand and Competitive Advantages of the Tesla Elon Musk took over and developed the whole system of the company and its products.

## How Tesla Applied Corporate Entrepreneurship and How This Affected the Company's Position in the Business World

Tesla's knowledge management system is based on strategic partnerships for economic, knowledge, and know-how sharing, and it operates in a highly collaborative setting. (Bianca Cardenas, 2021)

**Globalization:** For instance, Tesla has developed innovative products aligned with a technology hub strategy, where Tesla products function as a technology hub for its other product lines. Moreover, Tesla has a unique global marketing approach that emphasizes the optimization of technology and the development of a compelling product compared to predominant business models that favor mass production. In terms of global branding, Tesla has obtained sales in 30 countries and has developed retail store locations in 9 foreign markets, with future expansions. Tesla adapted to the global pressure by providing innovation in lithium-ion batteries, solar panels, and charging stations, with the societal goal of the overall reduction in emissions. Tesla's global workforce has grown approximately 47 percent from 2019 to 2020, with the addition of more than 70,757 new employees. (Bianca Cardenas, 2021).

**Virtual:** Tesla sells products and connects customers to their power supplies through a virtual platform. Tesla, for example, makes use of online B2B platforms and marketplaces to improve opportunity and efficiency while lowering costs. Tesla also offers virtual dealerships, which give customers quick access to a variety of products. More specifically, Tesla has launched a virtual power plant in South Australia that will connect a variety of energy assets, such as solar panels and residential battery packs, and provide more complete grid services. Tesla's innovation is based on the utilization of technology and virtual environments to adapt to the customer's wants and convenience. (Bianca Cardenas, 2021)

**Recommendation:** For the extent of globalization and technology use, a recommendation would be to focus on developing emotionally compelling advertisements, which would suggest a shift from a highly selective and limited advertising strategy to the creation of unique advertisements that reinforce Tesla's brand and help drive sales globally. Consumers are drawn to emotionally appealing advertising because they make them feel like they are a part of the brand. Emotionally engaging advertising, according to research, improves consumer loyalty and helps firms stand out. As a result, Tesla must continue to emphasize worldwide brand development through emotionally

captivating commercials, which will help the company optimize cost structures and attract more customers over time. (Bianca Cardenas, 2021)

**Social and Organizational Culture:** The sustainable development of an organization is related to the culture of that organization by aligning employee values with organizational values. Research has shown that OCBs increase employee performance efficiencies, enhance performance by developing coordination skills, and contribute to performance by enhancing coworker and leaderships productivity by facilitating collaboration between groups and enabling the organization to adapt. Therefore, Tesla perfectly aligns the organization's culture with social responsibilities based on the organizational vision and strategies employed by the company. Tesla's organizational strategies involve decreasing dependence on conventional transportation by offering zero-emission alternatives and providing clean energy to residential, commercial, and industrial markets. What makes Tesla's organizational culture unique is its emphasis on various social causes, such as environmental protection and energy conservation. However, since Tesla's culture is so focused on the organization's vision, there appears to be disconnect on what truly matters within the organization: the employees. This can help Tesla foster their knowledge of other cultures and consolidate their own cultural identity, developing greater cultural awareness. Different types of values and devalued behaviors contribute to the influence of shaping an organizational culture significantly. (Bianca Cardenas, 2021)

**Leadership:** Therefore, Tesla should consider replacing transactional leadership with transformational leadership at all levels of leadership to promote innovation in inspiring ways. However, the transactional leadership style is also used several times by Elon Musk, and the leadership team, based on the aggressive approach followed to imbibe innovation among Tesla's operations. In comparison, a transformational leadership style creates a vision and inspires followers to strive beyond expectations, thus influencing attitudes by inspiring innovation with trust and openness. The leadership among Tesla consists of empowering leadership styles, as they provide up-to-date technology to equip employees with the best resources to become more innovative. Elon Musk has an autocratic or transformational leadership style, fully disclosing his goals while making the learning environment known to all employees. This type of leadership may be adequate in various settings and may support adherence to practice expectations, but not necessarily openness to innovation.



**Teams:** The following vital guidelines comprise Tesla's internal communication strategy: employees can reach out to anyone based on what they think would be the quickest way to solve a problem; employees do not require permission to talk to anyone else and should feel obligated to keep talking to people until the problem is resolved; it is not about pointless conversation; it is about executing efficiently. Tesla can connect employees through social media, so employees feel connected to Elon Musk and external communications. Research shows that social media is critical for internal communication, as it provides options and viability for employees. Elon Musk may use social media to post his thoughts regularly, allowing employees to contribute to developing strategies and plans. Although Elon Musk promotes an open-door policy at Tesla, employees have cited that profits are upheld before wellbeing. Elon Musk's main emphasis for Tesla's vision is innovation, which is also seen in their communication strategy, "talk to anyone". (Bianca Cardenas, 2021)

**Talent and Knowledge Management:** A more standardized talent selection strategy consists of: conducting job analyses to identify the required optimal behaviors per job type, providing assessments to determine if the candidate's behavior and skills align with organizational objectives, and determining if the candidate fits within the culture based on qualitative interviews. The talent selection strategy will minimize attentional bias and provide a standardized process that can be assessed for effectiveness. Elon Musk believes that other electric car companies could benefit from a rapidly evolving technology platform to combine knowledge to contribute to society. More so, the assessment of talent is highly dependent on Elon Musk's opinions and has been known to disregard efforts due to a shift in opinions about a product. While Tesla efficiently aligns business objectives to the vision, talent management is not a top priority within the organization. However, Tesla would be more effective in achieving its vision by developing strategic partnerships with different large-scale automotive companies. In 2014, Tesla adopted an open-source philosophy to knowledge management which prevents patent lawsuits against the use of their technology. Tesla would influence these companies towards electronic vehicle production, which could eventually shift the standard in the long term.

In conclusion Tesla's strategic alignment with the open-source movement (although a diluted version of it) and use of open source principles are ground-breaking for a (small) company in the highly competitive automobile sector. There are obviously hazards associated with it, but the business opportunities clearly exceed them. The strategic status of Tesla, as well as the unique

environment of the EV market at the moment, appear to be ideal for a strategic turnaround. It is, however, too early to say if Tesla will succeed in the end, or whether surrounding challenges (outside Tesla's area of influence) related to the transition to electric transportation will be met. (Manuel Moritz, Tobias Redlich, Pascal Krenz, Sonja Buxbaum-Conradi, Jens P. Wulfsberg, 2016)

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# Corporate Entrepreneurship Applied to the Case of 3M

*Joshua Biron*

## Introduction

Due to digitalization and globalization the world is developing at an enormous and ever-increasing speed. That counts especially for the business world. In the late 1970s the average tenure for a company on the S&P 500 Index was 35 years today it's about 20 years (Sull, 1999).

An additional explanation is that established companies become stuck on their routines and working patterns that brought them their initial success. And that's why when their environment changes they have a hard time responding effectively (Hillenbrand et al., 2019).

The concept of Corporate Entrepreneurship (CE) tries to tackle this problem by implementing entrepreneurial behavior and thinking in corporations to make them more innovative and agile (Burgelman R. A., 1983).

In the following I will present the concept of CE and examine how it's reflected in the 3M company, a famous example for innovation and adaptability (The History of 3M, n.d.).

## Corporate Entrepreneurship

Corporate entrepreneurship or intrapreneurship takes an evolutionary approach to management theory and developed into a research topic in the 1980s through works of Danny Miller, Robert A. Burgelman and Pinchot (Sakhdari, 2016). I will focus on Burgelman's work because there is no universally accepted definition of CE. As the term corporate entrepreneurship suggests the fundamental idea is that entrepreneurial behavior, thinking and initiatives should be encouraged within a corporation. This should result in new business areas and processes inside of an existing firm to create value and generate more revenue and growth.

Burgelman defines CE as a process of "extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations" (Burgelman R. A., 1984, p.154). In other words, getting a competitive advantage by creating innovations within the firm.

Burgelman claims that the implementation of CE should result in disruptive ideas which tend to be practiced by autonomous initiatives of employees at the operational level (Burgelman R. A., 1983).

The middle managers play a crucial role for implementing CE because their task is to support strategically the entrepreneurial initiatives early on, selecting them and combining them with the capabilities of the corporations and conceptualizing potential new operational fields.

This task requires a fast-learning ability and a in depth understanding of the strategic implementation; therefore, the competence of middle managers is crucial for the success of CE.

The top managers play a more passive role by recognizing the entrepreneurial initiatives and align them with the long-term vision of the company.

Burgelman states that the top managers must be concerned with the act of balancing the diversity resulting from the entrepreneurial activities with a certain amount of order and structure an organization needs.

For me the strength of CE is not just the creation of disruptive innovation within a firm which could potentially lead to a competitive advantage and therefor to economic growth and agility, but it also can increase the morale and productivity of the employees which feel engaged because can directly contribute and shape their company. This may also affect employee recruitment and retention in a positive way.

Implementing entrepreneurship in a corporation has some fundamental differences in comparison to classical entrepreneurship most often found in start-ups (Blöcher, n.d.).

The entrepreneur inside the company is not carrying the financial risk.

Taking risks is also not detrimental because failures can often be compensated by the corporation. The corporation can also provide more resources than a start-up could most of the time for example funding, knowledge, and infrastructure.

The implementation of CE should result in a more agile and open structure of the firm but nevertheless the corporate entrepreneur has more restrictions and bureaucracy to follow than he would in a Start-up.

## **A brief introduction to 3M**

The Minnesota Mining and Manufacturing Company or in short 3M has been founded in 1902 in Minnesota, to produce sandpaper for the car industry. From then on they massively diversified their product portfolio to around 60.000 products that are distributed in dozen business sectors and branches and since its founding 3M registered over 120.000 patents and has been on the Fortune 500 list for several years (Timeline of 3M History, n.d.).

The goal of 3M, to become the most innovative company, is not so far-fetched recognizing the constant innovation coming out of the firm (Brand, 1998).

## **Corporate Entrepreneurship Applied to the Case of 3M**

CE is not just a management theory that has been adapted by 3M but it has been performed in the company a long time before the literature about it has been published. In 1948 The former chairmen of 3M, William L. McKnight said: “As our business grows, it becomes increasingly necessary to delegate responsibility and to encourage men and women to exercise their initiative” (Becher, 2016, para. 3). This quote indirectly formulates the main idea of corporate entrepreneurship, and the company adapted this principle early on and can act as a prime example for innovation through intrapreneurs and the enabling mechanisms that enhance further initiatives.

At 3M the implementation of CE begins with the selection of employees. The 3M recruiters know the importance of hiring entrepreneurial people that are the driving force of innovation in the theory of corporate entrepreneurship.

The recruiters actively select people who want to start new things and are willing to take risks, especially people that are creative problem solvers with general interests (Brand, 1998). The company also ensures that those people are enabled and willing to pursue their visions and initiatives.

3M frees up time spots in the work schedules of their employees, allowing them to develop their own ideas and visions which might result in innovations the company could profit of.

This measure is called the 15% rule which allows the employees to devote 15% of their time to innovative ideas they choose. It's not a strict rule, for some people it is possible to spend more than 15% of their time on their project if the idea seems to be promising.

Additionally, 3M has a budget to finance those innovative ideas. The technical people can apply for the so-called Genesis grant which pays for the equipment that they need. For non-technical ideas 3M established the Alpha grant. It is also possible to use the money from the grant to employ someone to do the official work, so the employee has more time to work on his or her 15% project.

The 3M management also put a process into play to incentivize innovation by recognizing innovators publicly through articles, presentations, and special award programs. This social confirmation can be considered as a reward but also a motivation for other employees.

The management is aware that innovation often means to fail a lot, so a culture of allowing failures has been established to further encourage calculated risk-taking. This means that the managers must trust the people and the process but still intervene when necessary.

A constant stream of innovation is ensured by the rule that 30% of sales volume must be achieved by products that are not older than 5 years (Brand, 1998).

It might be the case that the implementation of corporate CE in a company improves the satisfaction of the employees because they feel more engaged. It could be possible that this is one of the reasons that 3M employees stay within the company for an average of ten years.(Life With 3M, n.d.).

## **Reflection**

Examining the results the 3M management received, by established different support mechanisms for entrepreneurial employees, proves that CE can lead to ongoing innovation in corporations. The 15% rule or the different grants for projects of employees show how management theory can be reflected and implemented in the business world. At 3M entrepreneurial actions of employees have been supported before corporate entrepreneurship theories became popular in economic research which strengthen the theory because it shows that the idea of it developed autonomously in praxis and not just in the minds of researchers (History Timeline, n.d.).

The theory of CE reflected in the company 3M has important implication for being a manager. It shows that innovation through entrepreneurial action of employees can be increased but the managers must know their role.

They must support their employees rather than controlling them and incentivize innovation rather than punish failure. A manager has to be wise enough to recognize trends and align them with the long-term goals of the firm, but he cannot allow himself to get arrogant and think he knows where the future is heading.

The theoretical applicability of the theory is rather easy because it means mostly for the manager to give free time to the employees to pursue their creative ideas and support them with the necessary resources, but to implement it takes dedication and time. To calculate the benefit is difficult because the 3M management for example took many different measures to increase innovation and not all of them can be attributed to CE.

But the massive stream of new products, patents and the longevity of 3M indicate that the measures seem to work, and a part of the success most definitely can be attributed to the entrepreneurial activities of the employees.

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# Corporate Entrepreneurship in the Case of “Elsdorfer Molkerei und Feinkost GmbH”

*Madleen Brunckhorst*

## Introduction

In the eye of the rapidly changing economic environment due to digitalization, globalization and changes in behavior on the costumer side, it is now more relevant than ever for established companies to adjust their practices. Companies that follow the idea of “business-as-usual” (Kuckertz, 2017, p.V) are more likely to endanger their success. The management theory of Corporate Entrepreneurship displays ways for already established companies to adjust to the changing environment, leading to future success (Kuckertz, 2017). In this book chapter I will firstly introduce the theory of Corporate Entrepreneurship, followed by the description of the north German dairy “Elsdorfer Molkerei und Feinkost GmbH”. The application of the concept to the firm is based on an interview with one of the managing directors of the dairy as well as on their official website and documents within my corresponding data base.

## Concept of the Theory

The concept of Corporate Entrepreneurship describes a management theory, which focuses on the entrepreneurial idea of an established company and takes three different dimensions into account.

It is known as a sub-area of entrepreneurship and revolves around the idea of three different factors, which can lead to the consistent success of a firm. These three aspects include innovation, proactivity and risk-taking. Changing consumer interests as well as technological advancements in the market require consistent innovation of a company for it to remain competitive. Moreover, proactivity can lead to pioneer advantages and aims for a better performance than their competitors (Kuckertz, 2017). The first two dimensions correlate with the aspect of risk-taking, which implies the willingness to invest resources in innovation. The risk of failure inevitably has to be considered and therefore requires an appropriate fault tolerance. All three dimensions contribute to the goal of remaining flexible and creative in the eye of new start-ups entering the market in order to achieve long-lasting success in the marketplace (Kuckertz, 2017). The concept of the theory therefore heavily depends on two aspects: external factors and the individual (Adonisi, 2003). The

entrepreneur plays a significant role in this theory since they lead the company into specific directions through active decision-making. However, there are other actors to consider. “So-called ‘intrapreneurs’ are employees that are entrepreneurially active in the sense of the employer” (Kuckertz, 2017, p.27). They are able to shape the development of the firm with new ideas for improvement of already established concepts or with ideas for new innovations (Kuckertz, 2017). In this context, rewards and recognition play an important role for the employees in order to enhance creativity and the willingness to participate (Adonisi, 2003). Corporate Entrepreneurship suggests a combination of strategies, which is based on the encouragement to initiative and skill development and intends to find ways of adapting to the rapidly changing environment (Kuckertz, 2017).

## **Description of the Company**

The dairy Elsdorfer Molkerei und Feinkost GmbH is an independent subsidiary of the “Bauer group”, which belongs to the most influential German dairies. The company is located between Bremen and Hamburg and is known as a significant employer in the rural area. Since its foundation in 1909, as the so-called “Elsdorf dairy cooperative”, the company has developed in the eye of modernization and environmental changes. Today the company employs about 450 workers, of which 26 are trainees. The firm offers nine different apprenticeships, ranging from industrial management assistants to dairy technologists (Website). Moreover, there are about 165 local milk suppliers providing the dairy with the needed resources. According to latest data published in a presentation of the firm, Elsdorfer has a turnover of about 200 Million Euros per year and processes about 230 Million kilograms of milk per year. The range of products is broad and includes a variety of innovations, like yogurts, quarks, types of spread, dressings or soup. Protein yogurts as well as different flavors of vegan yogurt belong to the latest products entering the market (Interview). As published in the economic journal “Wirtschaftswoche”, the company was ranked 58<sup>th</sup> concerning the 3500 most innovative medium-sized companies in Germany. According to the official website, a major component of the firm’s strategy is the aspect of sustainability. The Elsdorfer Molkerei is considered a climate neutral company in the year of 2021 (Website).

## Application of the Theory to the Company

The management strategy of Elsdorfer Molkerei und Feinkost GmbH shows many compliances with the theory of Corporate Entrepreneurship. The first aspect to be considered is the aim of the firm's strategy. According to the company's policies and guidelines the overall goal is to lead the dairy to long-lasting and sustainable success (Interview). This corresponds to the essential aim of Corporate Entrepreneurship. The theory suggests to pursue this goal through the factors innovation, proactivity and risk-taking (Kuckertz, 2017). In an interview with Thomas Müller, one of the two managing directors of Elsdorfer Molkerei und Feinkost GmbH, he states that the main focus of the dairy is laid on innovation. According to Müller, the company calls itself an "innovation-dairy", which already distinguishes the firm from a great amount of other dairies, which focus on the production of basic products rather than diversification. There is a separate group of employees, called the "innovation-team", whose mission is to create and investigate new ideas for products or improvement. Although these ideas usually originate from this specific team as well as from the Product Development Department, Marketing or the Sales Department, there are other actors to be considered. In fact, all employees are welcome and encouraged to self-initiative through specific programs (Interview). Müller describes a monthly get-together, in which new ideas and impulses are being discussed. Furthermore, there is a concept called "Continuous improvement process" available to all employees. The company therefore also takes into account the aspect of intrapreneurs, which is mentioned in the description of the theory. Active participation of all employees in the development of new products is highly encouraged and builds a basis for long-lasting success through innovation. Furthermore, there are possibilities for further education (e.g. workshops) to increase commitment and creativity. The Business Development Team then prepares appropriate ideas and creates a concept for the specific product, which can be presented to the client. The manager highlights that the differentiation of the dairy requires acknowledging and following specific trends. Elsdorfer pursues four major trends: Indulgence, Health/Fitness/Wellness, Snacking/Convenience and Sustainability. Specific examples to mention are protein yogurts as well as milk alternatives, which both follow rising trends and sell accordingly well. "Jump as high as possible, not as high as necessary." - is the overall theme and motivation, as Müller states. Accordingly, high quality and attractive new innovations for the consumers are integral parts of the company's philosophy.

The second dimension, proactivity, can also be applied to the company. Elsdorfer constantly observes new developments in the marketplace and intends to recognize upcoming trends early on. This allows the firm to remain flexible and to adapt to consumer interests quickly, which can cause pioneer advantages. According to Müller, the dairy stays in contact with its clients (e.g. REWE or EDEKA) and not as much with consumers since Elsdorfer is a “Private Label”-producer. This implies that the dairy is the manufacturer of many products available in supermarkets, which are sold under the retailer’s brand name (Morrison, 2021). The firm only produces very few own brands, like the protein yogurt “MeinQ”. The proactive behavior is based on the observation of overall market developments as well as on impulses by clients or consumers, e.g. via the company’s Social Media accounts (Interview).

As described in the theory of Corporate Entrepreneurship, risk-taking is the third key to success. In the interview Müller explains that this aspect is a significant factor in the company’s strategy since all products phase out over time. According to the manager, it is inevitable to invest in new innovations if one does not own a product, whose long-lasting success and stability in the marketplace is for sure. Since the dairy builds on new innovations a specific fault-tolerance is implemented. Müller estimates that approximately one out of five to six of their innovations will succeed. This also implies that the failure of many products has to be acknowledged and consequences have to be drawn from it. Seeing that the dairy is willing to invest resources in innovation, whose success is unpredictable, risk-taking can be considered a fixed component of the managerial strategy.

## **Reflection**

After the preceding considerations, I believe Elsdorfer can be considered a very fitting example of internalizing the concept of Corporate Entrepreneurship. The company’s specific focus lays on the dimension of innovation, which they built their existence on. Particularly, the employees play a significant role with regard to this aspect since they lead the company to its success as being intrapreneurs. The drive for creativity is supported through further education and special programs for improvement. However, they do not necessarily have a rewarding system as it is described in the outline of the theory (Adonisi, 2003). Proactivity and risk-taking describe two further dimensions, which serve as integral parts of the company’s strategy and help Elsdorfer to adjust to changing consumer interests and new competitors in the marketplace.

To conclude, one can state that the dairy manages to remain successful by implementing the key elements of Corporate Entrepreneurship, helping the firm to transform in a rapidly changing economic environment.

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# The Concept of Corporate Entrepreneurship Using the Example of Volkswagen AG

*Marie Bükow*

## The Concept of Corporate Entrepreneurship

Corporate Entrepreneurship is, as Burgelman (1984) states, a management strategy for large, established firms that incorporates entrepreneurial activities in their business strategy, enlarging the firm's competencies and opportunities by opening up towards innovation and extending in related and unrelated areas. Internal entrepreneurs act on new opportunities, develop new strategies and combinations of resources, securing the company's growth and competitiveness.

In dynamic markets, product and process innovations, strategic renewal, and new business models foster new market developments and develop the company's resources, for example, finances, experience, or networks (Ireland et al., 2006). Paunovic and Dima (2014) state, that this important stimulating, innovative climate from employees to the management is encouraged by a supportive organizational culture. Allowing creativity and liberty leads to knowledge transfer, encourages problem-solving and new approaches, and combined resources with the integration of employees in the entrepreneurial process (Paunovic & Dima, 2014; Ireland et al., 2006).

Robert A. Burgelman (1984) describes in his proposal of designs for Corporate Entrepreneurship interconnected and simultaneous strategic activities of managers across different levels of the organizational structure: the induced strategic behavior loop and the autonomous strategic behavior loop. The induced strategic behavior loop describes the current business strategy, which is the basis of the company's actions. The autonomous strategic behavior loop highlights the entrepreneurial potential of established firms, where a filter of opportunities is avoided by enhancing the business areas and activities by middle-level managers. The attempt to implement autonomous strategic behavior is the strategic context determination, where middle-level managers question the concept of strategy while the top management can retrospectively rationalize a successful autonomous strategic behavior. Strategic decisions of the management can happen through strategic importance and operational relatedness. Interactions with middle-level managers can help to support the strategic assessment of the top management. Operational



relatedness analyzes differences between new capabilities and the current business strategy, and how new skills develop by innovative proposals.

Additionally, Kuratko and Morris (2018) explain two forms of Corporate Entrepreneurship: corporate venturing and strategic entrepreneurship (Kuratko & Audretsch, 2013; Morris et al., 2011). Internal corporate venturing describes the launching of new innovative ventures within the firm or the creation of new businesses owned by the corporation (Kuratko et al., 2009). External corporate ventures describe innovations created outside the firm, which are acquired or invested in (Covin & Miles, 2007; Morris et al., 2011). Strategic entrepreneurship describes entrepreneurial activities adopted for their growth and competition strategy, happening in either the strategy, products, served markets, internal organization, or business model (Kuratko & Audretsch, 2013).

### **Case: Volkswagen AG**

For the inquiry of the case and its application to the concept, the website of the Volkswagen AG is used as a database. Volkswagen AG is Europe's biggest automobile manufacturer and was founded in 1937, employing 662,755 employees (March 2021). The Group comprises ten automobile brands, in the volume, premium, and sports area and several more business units, among others MOIA and Volkswagen Financial Services. The automobile market is shaped by quickly developing trends and new opportunities towards sustainability and digitization. These dynamics and their strategic importance are highlighted by the director of the Central Automotive Management Dr. Stefan Bratzel: "We are experiencing a paradigm shift, meaning that innovations are becoming central to the question of survival in the automotive industry. In the current competitive dynamic, nobody can allow themselves to slow down."

### **Corporate Entrepreneurship and the Volkswagen AG**

As a large, well-established company Volkswagen AG is easily prone to fall into the trap of relying on old business models and the following diminishing growth. The intention is to follow the path of continuous innovations by several approaches to strategic entrepreneurship. That includes the Volkswagen Group Innovation, which aims to achieve global innovative cooperation in the Deep Tech area, with global innovation centers that collect local knowledge and expertise by creating a broad network. The Open Innovation program supports developments in cooperation with external partners. Further, product and process innovations and improvements for the future of mobility

incorporate autonomous shuttle fleets, climate-neutral cars, a software platform for autonomous driving and new mobility services, and a united mechatronics platform. Connecting the company's induced and autonomous behavior loop and extending its operational-related activities showing in a transformed business model, serving new markets and newly aligned resources aims at benefiting from the potential of the industry and remaining in the innovative competition. Those dynamics that initiate Corporate Entrepreneurship (Miles et al., 2009) influence the strategic importance of innovation. This includes the prevailing trends of sustainability and digitization in the automobile industry, wherein the following, the corporation aims to move from conventional engines to climate-friendly cars, and from car sales to software and mobility services. Furthermore, the Covid-19 pandemic or the Volkswagen emission scandal pressured for new solutions to secure a future on the market.

However, Greenpeace is criticizing ongoing investments in climate-harmful SUV models, showing that old success strategies are not easily given up on. Further, the path of development of Volkswagen AG is similar to other innovation dynamics in the industry with shaping and developing the current development of the automobile industry, but not generally leading to a disruptive change of direction, indicating a not excessively differentiation from competitors. Another aspect is the opportunity for the participation of employees. In the "Charter on Labour Relations within the Volkswagen Group" it is stated, that employees should actively be incorporated into the company's development and contribute to improvements of the company and its success. By being part of the German Diversity Charter, variety in their workforce is embraced, and with this diversity of knowledge and ideas. However, there could be a more transparent overview of what is done by the Group to engage with its employees and support innovation. Moreover, as the news broadcast Tagesschau reports, the Supervisory Board meeting in December 2021, discussed important aspects of the top-management strategy. Following a leadership crisis, unity was demonstrated which is pivotal for an encouraging, innovative climate, besides the unclear impact of the not-consented pronounced scenario in which 35,000 employees would be laid off. Yet, investments in innovation make up the main part of the 159-billion-euro investment plan with an 89-billion-euro budget for 2022 until 2026. This indicates the top management's position on the strategic importance of innovation and drives the company's transformation.

Moreover, Volkswagen AG has internal and external corporate ventures which diversified the Group's portfolio, diversified its expertise, and explored new markets. For example, Volkswagen

and Volkswagen commercial vehicles are founded brands within the company, while other brands were bought from external parties and are legally independent.

Based on the website of the PwC, the management strategy appears to be successful, as over the past years the Group is honored as the most innovative automobile Group by the AutomotiveINNOVATIONS Award. Nevertheless, in other categories, for example for innovative premium brands, future innovation potential for the Group is indicated by the ranking. Besides, the number of innovations and world novelties decreased from 2019 to 2020, from 272 innovations to 67 and 74 world novelties to 24, possibly resulting from the effects of the Covid-19 pandemic.

## Reflection

Almost 40 years ago, Burgelman (1984) published his remarks on corporate entrepreneurship and showed how large, established companies remain permanently strong in innovation. Especially in sectors such as the automotive industry, major product changes and developments are increasing the pressure of continuous innovations on companies. At Volkswagen AG, many approaches to this can already be found through publicly accessible sources. Apart from overcoming problems because of the Groups complexity and several successful innovative approaches, there is still potential for the future, to initiate innovation and entrepreneurial activities through management structures. With its management strategy, Volkswagen AG aspires to grow more efficient, solution- and consumer-oriented, innovative, and sustainable to generate profits and growth by enabling cooperation within the Group and among employees. If applied consistently, the framework set out by Burgelman can continue to help Volkswagen AG to base its innovative strength even more on the market developments and to play a leading role in the future of mobility.

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# **Rügenwalder Mühle: An Example for Corporate Entrepreneurship**

*Anabel Burchill*

## **Concept of Corporate Entrepreneurship**

Corporate Entrepreneurship first appeared in academic literature in the 1980s and continued to evolve over time. The concept was strongly influenced by R. Burgelman, who stated that “[...] the motor of corporate entrepreneurship resides in the autonomous strategic initiatives of individuals at the operational level in the organization.” (Burgelman, 1983, p. 241). It is recognized as an independent subdiscipline of entrepreneurship and describes any entrepreneurial activity taking place within and outgoing from established companies and organizations (Kuckertz A. , 2017). Corporate Entrepreneurship can take place at an individual level as well as on a team or department level (Fueglistaller et al., 2019). The goal is to keep traditional businesses as agile and creative as young startups. In order to achieve this, Corporate Entrepreneurship deals with the development of new business ideas through Corporate Venturing and Corporate Venture Capital (Fueglistaller et al., 2019). Corporate Venturing describes the development of leadership concepts that benefit companies to take advantage of entrepreneurial opportunities and promote risk-taking attitudes. In this context two forms can be distinguished: internal and external venture management. Venture Capital can be invested directly or indirectly by companies in internal or external startups or technology businesses (Kuckertz A. , 2017; Fueglistaller et al., 2019).

Eight Trends have been identified that can eventually lead to a tight spot within companies. These include change of customer needs, technological development, competitors, change in legal and ethical standards, transformation in the economic environment, work environment, resource environment and trends in globalization (Kuckertz A. , 2017). Five dimensions can be defined for companies to create opportunities out of these challenges and act in an entrepreneurial oriented way. Innovativeness, proactiveness and willingness to take risks combined with competitive aggressiveness and autonomy. This makes the extent of Corporate Entrepreneurship tangible within businesses (Kuckertz A. , 2017).

According to Kuckertz, Innovativeness is seen as the core dimension of entrepreneurial orientation. It describes the ability and willingness to tackle new activities and is directly related to high investments in research and development. Early action as well as realization and

implementation of these innovations characterize proactiveness. The active search for opportunities for the implementation of new products or services are accompanied by rapid eliminations of activities that are at the end of their life cycle (Kuckertz A. , 2017). Proactiveness requires a visionary and goal-oriented attitude and is based on the development of scenarios (Kuckertz A. , 2017). The willingness to take risks can be seen as a consequence of innovativeness and proactiveness and has no positive effect on its own. It includes that companies take risks of possible failure in addition to offering a high level of fault tolerance and a corresponding culture of error within the working environment (Kuckertz A. , 2017). The strive to be better than the competition along with the provision of resources to realize the innovation goals, illustrate the competitive aggressiveness within a company. Lastly, autonomy can be given to employees, teams or departments. It is a precondition of innovativeness through which the independent development and implementation of entrepreneurial ideas are encouraged. This can be achieved through flat hierarchies and a high degree of delegation (Kuckertz A. , 2017).

## **Case Description**

Rügenwalder Mühle is a German family-owned business which was founded in 1834 in Rügenwalde by Carl Müller. The company's headquarters have been moved to the county of Ammerland in Lower Saxony and are located in Bad Zwischenahn since 1956. At present, the company is managed by Michael Hähnel, chairman of the executive board. Rügenwalder Mühle currently has about 800 employees. In 2020 the total revenue comes to 233,7 million Euros (Rügenwalder Mühle, Unsere Geschichte, n.d.; Rügenwalder Mühle, Zahlen & Fakten, n.d.).

Initially, the business was founded as a butcher company and it was one of the best-known German suppliers of ready-made meat products such as cold cuts, sausages and meatballs. However, Rügenwalder Mühle was still a small organization compared to its large competitors Nestlé and Wiesenhof (Hilbig, 2018).

In 2015 Rügenwalder Mühle took the opportunity of entering the vegetarian and vegan meat alternative market. The company instructed food designers to develop vegetarian products that were as close as possible to the previous meat products in terms of appearance, taste and feeling. A great difficulty the organization met, was the internal resistance and unwillingness of many employees to embrace meatless products as a new market trend. Being an original slaughterhouse the change to plant-based products was not easy (Hilbig, 2018).

## Application of the Concept to the Case

The company's strategic approach is to compete with oneself before the market does. Rügenwalder Mühle recognized a possible tight spot at an early moment. This was the change of customer needs and wants towards the reduction of meat consumption. The company observed this trend before it really started and therefore created an opportunity out of a possible threat (Kuckertz A. , 2017; Hilbig, 2018). One main effect that triggered this consumption trend could be the rising of Greta Thunberg and the beginning of the Fridays for Future movement. Additionally, the pandemic also provoked many people to change their diet and eat more consciously (Terpitz, 2021).

Forecasts predict that by 2026 the consumption of meat substitutes will increase to 1.69 billion kilograms worldwide. In comparison, the volume of meat substitutes consumed globally in 2020 amounted to 470 million kilograms. This shows an increase of 1.22 billion kilograms from 2020 to 2026 (Statista, 2021). As a result, it can be said that there is a positive outlook for Rügenwalder Mühle in the coming years, regarding consumer demand for meat alternatives.

In order to stay at the forefront, every company should however not only focus on predictions, but additionally maintain an entrepreneurial orientation within the firm. In the past few years Rügenwalder Mühle has shown a high entrepreneurial orientation. This is measurable through the five dimensions of entrepreneurial orientation (Kuckertz A. , 2017).

Firstly, Rügenwalder Mühle has the dimension of innovativeness at the core of their firm. As the former managing director of Rügenwalder Mühle stated, the company is only at the beginning of extended research on new meat alternative products consisting of milk, soy and protein as well as the investigation on the development of synthetic meat (Hilbig, 2018). Therefore, the company has a high ability and willingness to tackle new challenges and a high measure of innovativeness (Kuckertz A. , 2017).

Secondly, Rügenwalder Mühle has proven to be proactive. As a pioneer in meat alternatives in Germany the company took early actions on the upcoming consumer threat with the introduction of new products before its competitors such as Nestlé did (Hilbig, 2018; Kuckertz A. , 2017).

Furthermore, the organization took a high risk of failure by putting the entire marketing budget in the newly introduced meat alternative products. During this time Rügenwalder Mühle was a small family-owned company in comparison to its competitors, which is why such behavior could have



also led to a disastrous end of the company. However, since this did not occur the company had a correct entrepreneurial orientation in terms of risk taking (Hilbig, 2018).

Simultaneously, the dimension of competitive aggressiveness can also be recognized in the context of Rügenwalder Mühle's Veggie-Boom. In order to gain greater market share, the organization is willing to enlarge the research and development budget for meat alternatives. Therefore, provision of resources to make innovation goals feasible is provided (Hilbig, 2018). As the main percentage of the marketing budget is directed to vegetarian and vegan products, the great strive to outpace competitors in this new market becomes visible (Hilbig, 2018).

Lastly, the firm provides a great amount of autonomy to its product developers by giving them the possibility to independently develop meat alternative products. This way a high amount of commitment regarding the employee is granted (Hilbig, 2018).

## **Reflection**

As a result, I believe that the company Rügenwalder Mühle is a valid example for the concept of Corporate Entrepreneurship, based on the sources used above. Especially the company's innovative mindset, building on the knowledge of the firm to develop new products, led Rügenwalder Mühle to being a pioneer throughout the Veggie-Boom. Pivoting from a slaughterhouse to designing innovative meatless products confirms that future and consumer trend orientation is possible even in traditional family-owned businesses.

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# The Art of Efficiency at Toyota

*Kristiyan Denislavov Dechev*

## Introduction

Toyota Motor Corporation was founded by Kiichiro Toyoda on the 28th of August, 1937. Ever since the company has been exponentially growing to the point of becoming one of the biggest car manufacturing companies in the world today. To achieve such success, a company has to deliver quality products to its customers, at prices they are willing to pay, and of course, as the company's reputation suggests, Toyota does exactly that.

To most people, the company is known simply as one of the biggest car manufacturers in the world, which produces affordable and reliable Japanese cars, but to others, the company is known for its unique management and production methods, which changed the car manufacturing scene for good. This book chapter aims to analyze Toyota's management structure, production methods, and how it can be related to the topics, discussed in the "Foundations of Management and Entrepreneurship" class.

## General Analysis on Toyota and its Management Structure

Toyota owes its success to its unique management structure and clever production and quality control methods. It is accepted by many to call the combination of the company's principles and methods "the Toyota way", as a particular algorithm to performing tasks. According to an article, written by the former president and CEO of "Canadian Autoparts Toyota", the two main pillars of the Toyota way are *kaizen* and respect and empowerment for people, working in the company, particularly line workers. On the production side of things, the two main pillars in the TPS (Toyota Production System) are JIT (just-in-time) and Jidoka.

The word *kaizen* can be divided into two words- kai (change) and zen (better). *Kaizen* is namely the philosophy for continuous improvement, which is a practice that managers at Toyota encourage a lot. The kaizen method is therefore connected to the second pillar of the Toyota way, mentioned above, namely respect and empowerment of people in the company. For example employees at Toyota production lines would get bonuses, not only for overtime work but also if someone found a way to make production or transportation of a given thing more time or cost- efficient. It is also

believed that in the Toyota way quality is part of every function and every person acts as an inspector, who checks the work passed on to them and therefore improving the process as a whole. Amongst the great workflow philosophy that Toyota has, the thing that makes it really stand out is its production system, namely TPS, and how it is being managed. As mentioned above, JIT is one of the two main characteristics of the TPS. The just-in-time method is namely the philosophy of making only what is needed, only when it is needed, and only in the amount that is needed. The JIT production method is best briefly explained as “a ‘pull’ system of providing the different processes in the assembly sequence with only the kinds and quantities of items that they need and only when it needs them” (Toyota UK Magazine). Using this method Toyota saves warehouse space, cuts down cost-carrying, reduces cost through elimination of waste, and prevents pre-existing manufacturing issues from hiding because every component has to fit perfectly the first time as there are no alternatives available, during the production process. Just as important to the TPS is the Jidoka method, which basically means that every time an abnormal or defective condition arises, the equipment or operation stops, until the problem is solved. Jidoka is important to TPS because that way controlling abnormality becomes easy and the JIT production can be carried out smoothly, and it also gives workers more responsibility and authority, so they can self-display the maximum potential of their capabilities and feel more engaged and respected in their work.

### **Application of Management Theory Discussed in FOUME Classes**

When analyzing Toyota and its many management principles and methods, I came to think that the way the company deals with change and adaptation can be compared to Robert Burgelman’s paper “Corporate entrepreneurship”, which was discussed in one of the FOUME classes that had taken place. This paper was discussed in accordance to analyzing the evolutionary approaches of being a manager and/or entrepreneur, which I think correspond to the way that Toyota is being run.

The management style of the CEO of the company plays a big role in what kind of approaches will it take, how many resources are going to be spent and where, how well the company can adapt to the world market and how the company’s future will be shaped in general. The current CEO of Toyota is the founder’s grandson, Akio Toyoda. Results of Mr. Toyoda’s work have proved that the management style that he has to offer to Toyota is exactly what the company needed.

Since Akio Toyoda became the CEO of Toyota, he has been held in high regard by the company's employees due to his high standard of moral and ethical conduct and his charisma. His management style can be best described as transformational and entrepreneurial. From Robert A. Burgelman's work, I learned that companies need both diversity and order at their disposal for them to keep their viability. Toyota already had order in its management structure but needed to diversify its operations, so Akio Toyoda embraced change and took action to do so. A prime example is that he is set to abandon "kakushin", which shortly put is the concept of revolutionary change that the prior President practiced redesigning plants and operations.

Instead, Akio's visions for the future of the company included focusing on the production of reliable, practical, and affordable vehicles for the mainstream consumer, rather than expanding its market.

Another thing I took note of in the discussed paper in the FOUME class, was that every level of the organization matters, and should be therefore supervised and that strategic recognition was crucial. Another example of why I think that Akio Toyoda's approach to management is relevant to the mentioned papers is that not only does he diversify the operations of Toyota, but he also changed people's perception of what does a CEO do exactly. As he is also an entrepreneurial leader, he is a strong believer of "genchi genbutsu" or "see it for yourself", which ties him to the basic concept that he can be seen as a leader, who both paves the way, walks the way and shows the way. So the example I want to give about Mr. Toyoda's actions is when he secretly went to visit a Toyota dealership in Ann Arbor, Michigan. There was a pickup truck recall, so he wanted to investigate it for himself, so he reportedly got down on his hands and knees to examine the undercarriage of the truck and getting dirty when doing so. By taking such actions he also challenges an old Japanese executive method, that executives are rarely seen, because he can be seen everywhere, from his office to a random Toyota dealership at any time. This also shows his enthusiasm to improve the company and how determined he is to do so.

## **Conclusion**

Toyota's management structure and production system changed the way big companies operated and how people perceived them forever. The constant movement towards making the work of the company as efficient as possible and the innovative methods it uses to do so, make its management structure unique and keep its progress ongoing. As it comes its employees, Toyota has turned into

a car manufacturing empire, where around 360.000 people work in, all over the world. As feedback to the company suggests they have been treated with respect and paid fairly. All in all, Toyota is unique in many ways and that is exactly why the company still prospers and manages to deliver its high-quality vehicles to customers around the world.

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## **3M: Longevity Success through Corporate Entrepreneurship**

*Emily Dorn*

### **Introduction**

The 21st century is fast moving era full of change and continuous development. According to Forbes, about a third of the 200 largest corporations no longer exist after 10 years (Engelen, A., Engelen, M., & Bachman, 2015). But what is the reason for this? Why is it that established companies with all their resources and experience are not successful in the long term?

The biggest issue is that companies often get too comfortable over the years of success and therefore lose their flexibility. The entrepreneurial dynamism and the recognition and implementation of new possibilities is gone. Start-ups on the other hand often recognize these new opportunities as their focus lies on finding gaps in the market. Only corporations that ongoing question their work and continuously strive for improvement have a chance to continue to operate successfully in the market in the upcoming years (Engelen, A., Engelen, M., & Bachman, J. (2015).

This book Chapter presents an approach to secure the future viability of established companies by aiming for high organizational and economic performance in order to generate growth and future competitive advantage. This approach of implementing entrepreneurial structures at a company is called corporate entrepreneurship and will be discussed using the example of the long-standing company 3M. For this purpose, the theory and the company are first considered individually and then the corporate entrepreneurial approaches of 3M are being examined.

### **Corporate Entrepreneurship**

Corporate entrepreneurship is a concept used to develop new products, services or processes in an existing organization. Employees with entrepreneurial visions and skills are encouraged to identify opportunities and develop ideas in order to maintain the market position (Engelen, A, Engelen, M. & Bachman, 2015). Characterized by four main elements that have an impact on sustainable corporate success: innovation, flexibility, proactivity and the willingness to take risks, the aim of corporate entrepreneurship is to create a company structure that closely resembles the start-up culture (Engelen, A., Engelen, M., & Bachman, J. (2015).



Corporate entrepreneurship programs are supposed to produce ideas which are disruptive in nature, rather than smaller, gradually changes. Therefore, corporate Entrepreneurship can be seen as a proactive response to the fast- moving market and the short life cycle of products.

### **3M**

The 3M Company was founded 1902 by five businessmen in Minnesota, North America. Originally the company, then named Minnesota Mining and Manufacturing, was involved in mining a mineral but this failed since the mines mineral holdings were anorthosite, which had no commercial value. The company moved to Duluth, Minnesota and began to research and produce sandpaper products. Since then, the company steadily expanded. Today 3M is known for their culture of innovation and continuous investment in research and development. This resulted in the invention and introduction of many new products for both the industrial and consumer market. The company now is globally represented with \$30 billion in sales and more than 88.000 people employed (Noordin, 2013).

### **Merging Theory and company**

#### *Introduction of Corporate Entrepreneurship into 3M*

The 3M journey toward corporate entrepreneurship and innovation began back in 1914 when William McKnight became general manager of the company and introduced the idea of „listen to anyone with an idea “. This philosophy brought forth the 15 percent rule, which allowed the employees to work 15 percent of their paid work time on own ideas that could result in products for the company (Stewart, Jorgensen, & Miller, 2019). In addition to that the employees were also allowed to team up, hire extra help and they were also provided with materials and money. In order to get an idea accepted, they had to get a backing of a board member. Then a team aligned with the idea was set up to take the idea forward. This shows that corporate entrepreneurial approaches are deeply rooted in the philosophy of 3M even long before the concept was first described by Robert Burgelman in 1983. By allowing the employees room of maneuver the company took a risk, as the employees could also have simply served the time without working or not coming up with good ideas for products. Instead, the newly given freedom was well accepted by the employees and led to entrepreneurial action by the individuals (Burs, 2020). The 15 percent rule

at 3M was very successful and brought forth many new products. One famous example is the Post-It Note invention.

### **The Invention of the Post-It Note**

In the 1980s the 3M employee Art Frye was looking for a paper marker that would stick, but not dry. Another employee, Spencer Silver, was working at the same time on a very strong adhesive. That effort failed and instead resulted in a very weak glue. Frye then used his 15 percent time by combining Silver's failed strong adhesive and his idea of the „perfect bookmark“ by applying Silver's glue to the back of a piece of a yellow paper. Frye tested his invention and was convinced of his new product. He introduced it to the board where everyone was rapturously about the Post-It Notes. In the following years his invention became widely known and sold worldwide (Stewart, Jorgensen, & Miller, 2019).

The Post - It Note was preceded by a failure. By staying flexible and proactive which are key elements of corporate Entrepreneurship, the company with its entrepreneur Frye was able to make the most out of the non-adhesive glue from Silver and so created an article which resulted in a worldwide used product.

### *Creating Motivation through Incentives*

Nowadays 3M generates a quarter of its annual revenues from products less than five years old (Burs, 2020). Every year they introduce more than 500 new, often innovated products. This is only possible through their entrepreneurial approach. Instead of resting on past successes, employees are encouraged to develop new ideas. In order to achieve this 3M introduced a special working climate named „Minnesota nice “(Burs, 2020). While the name evolved out of the place of the origin of the company it describes a low ego and nonhierarchical as well as hardworking and self-critical working atmosphere. Achievements are regarded very highly in the company. Therefore, the leader of a new innovation group often becomes general manager of the new product line, which serves as a major motivation for other employees. Beyond that also lesser achievements get acknowledged by inviting the entrepreneurs to join exclusive society like the „Calton Society “(Burs, 2020).

### *Communication as a Key Factor of Corporate Entrepreneurship*

In order to achieve an entrepreneurial behavior in an established larger organization, communication is one of the key elements that needs to be implemented (Brandt, 1998). Different parts of the organization need to communicate and work together, as well as they need share their knowledge since numerous products and ideas could also be interesting for different markets. 3M has introduced this strategy of sharing knowledge back in the 1950's by establishing a Technical Council, made up of technical directors and personnel, who met up several times a year to review, research and discuss new inventions and common problems of different industries (Mowen, 2013).

### **Reflection and Conclusion**

3M's record of successful innovation through communication, risk taking, flexibility and proactivity proves how open the company is towards new ideas and entrepreneurial approaches within the company. Still, it must not be forgotten that 3M nowadays faces many challenges to maintain its reputation for innovation. Since the company has become larger and more complex with products in all different sectors, it must be considered that in some areas different managerial approaches may be necessary.

In addition to that it needs to be recognized that in today's world 3M also faces stiffer competition which means that cost economies must be made to maintain profitability. As a result, the 15% rule probably should only apply to certain entrepreneurs. Nevertheless, 3M has successfully practiced corporate entrepreneurship for over a century by recognizing that innovation is the key to success and therefore was able to become one of the largest companies in the world.

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# Daimler AG and the Concept of Corporate Entrepreneurship

Melina Groß

## The Theory – Corporate Entrepreneurship

Corporate Entrepreneurship consists of two parts: the Corporation and the concept of Entrepreneurship. According to the Cambridge Dictionary, a *corporation* is defined as "a large company or group of companies that is controlled together as a single organization" (Cambridge Dictionary, 2022). However, many scientists such as Richard Cyert and James March would disagree with this description. They would define the company as a social construct: A coalition of groups with different interests, values, and goals (*A Summary of Cyert & March's Behavioural Theory of the Firm* | Studymode, n.d.). Although the individual interpretations of a company differ, it can be agreed that a company is both an economic and social place.

Contrarily *Entrepreneurship* refers to an entrepreneurial process and can therefore be described as a company's ambition towards continuous change and improvement. The process consists of identifying, evaluating, and using entrepreneurial opportunities, which translate the information into marketable products and services (Blöcher, 2018). These two concepts combined result in the theory of Corporate Entrepreneurship (CE). CE addresses how established companies can manage to remain entrepreneurial in order to continue to exist in the long term and not be displaced by start-ups. Therefore, the concept mainly refers to renowned and, above all, established companies with global influence. Corporate entrepreneurship prioritizes the future viability of established companies by striving for a high economic (and organizational) performance to generate growth and future competitive advantages (Blöcher, 2018). The aim is to create structures that encourage employees to think and act entrepreneurially, thus establishing a flexible start-up structure. M. Lippitz and R. Wolcott define it as "a process in which teams within an establish[ed] organization create a new business which is distinct from [the] parent company but leverages the parent's asset, market positions, capabilities or other resources" (UKEssays, 2018). This paper will discuss three elementary dimensions on which all scientists have agreed. These three decisive factors can be divided into innovation, proactivity, and risk-taking. In the following, I will examine if and how CE is reflected in the Daimler AG company.

## **The Company – Daimler AG & the Sales Market**

Daimler is viewed with great respect both domestically and internationally. Daimler AG is a listed German manufacturer of passenger cars and commercial vehicles that also offers mobility and financial services. Abroad, Daimler is best known for the luxury cars of the Mercedes Benz brand. With almost one hundred and fifty years of company history, Daimler AG is one of the most successful corporations worldwide. As of December 2020, the Group had approximately 288,500 employees. In 2020, Daimler AG generated around 154 billion euros and a profit of about four billion euros. Although the Stuttgart-based carmaker posted lower sales in 2019, profit increased (Mercedes-Benz Group, n.d.). Especially in recent years, Daimler has focused its development on hybrid drive, e-mobility, and batteries - all of which have shaped the automotive market in recent years. The current sales market can be described as a combination of cars with a conventional internal combustion engine (66% of the vehicles produced in 2020) and e-/hybrid-cars. The number of new registrations of electric cars is increasing every year (2020: 3.2 million worldwide ((Statista, 2021))). However, the high prices for electric vehicles, missing chargers, and the still young aftermarket are hindering the development of electromobility.

## **Connecting the Dots: Market, Company, and Theory**

### *Innovation*

Within corporate entrepreneurship theory, innovation speaks of a company's aspirations aimed at technological progress. Employees with the right vision and skills are encouraged to identify opportunities and come up with ideas that lead to innovative new products, services, or even new lines of business. Daimler AG (then Benz & Cie. Rheinische Gasmotorenfabrik) was founded in Mannheim in 1883 (Mercedes-Benz Group, n.d.). In 1926 it merged with Daimler-Motoren-Gesellschaft and became Daimler-Benz AG. Daimler established the foundation for today's CE business concept during these years. As the owner of the patent rights for essential components of the combustion engine, Daimler was able to secure a unique selling point (USP), i.e., a product that stands out - especially from competitors. As early as the 19th century, Daimler revolutionized the industry of transport (Pohl et al., 2017). A significant hurdle on the way to individual mobility has thus been overcome. This innovation process has accompanied Daimler's automotive development from 1886 until today. However, especially in recent years, Daimler has not lost its

reputation as an innovation leader. For example, in 2018, Daimler launched the Mercedes-Benz Intelligent Drive 2002, setting new standards in terms of safety and driver protection (*Meilensteine der Innovationen bei Mercedes-Benz*, 2015).

Concerning the impending climate crisis, many car manufacturers have changed their course towards e-mobility in recent years. At this point, Daimler's speed in the development of e-cars must be critically questioned. Although Daimler was the first automobile manufacturer to install a lithium-ion battery in one of the models in 2009 (S 400 Hybrid), Daimler was lagging behind the American company *Tesla* in terms of sales for a long time. However, Daimler invested in Tesla in 2009 and saved the automotive newcomer from bankruptcy (Bakir, 2020). Thus, Daimler was intermittently owning almost 9.1% of Tesla shares. Through this investment and the cooperation entered into at the same time, Daimler was able to gain insights into Tesla's development and research. The investment shows that Daimler has been looking for innovations for years. The most recent example of innovation is the EQXX model presented at the beginning of January 2022 (Daimler AG, 2022). With the Mercedes-Benz EQXX, Daimler takes the next step towards efficient e-mobility. According to internal digital simulations, it can be assumed that the technology carrier will travel more than 1,000 kilometers in real road traffic with a single battery charge (Daimler AG, 2022). This achievement would take e-vehicles to a new level in terms of range.

### *Proactivity*

In CE theory, proactivity focuses on changes in the environment. For the company, it is essential to recognize these changes and developments as early as possible. Subsequently, the company can adapt to these conditions before all other competitors and thus gain a great advantage. Therefore, excellent performance in this area is indispensable for long-lasting success. Proactivity refers to both the technology and the people within the organization. A company that only adapts the products, but does not renew the structures, will not improve. The Swedish manager and current Daimler CEO Ola Källenius (since early 2019) understood this connection, unlike his predecessor Dieter Zetsche from the beginning. On November 1., 2019, the Daimler Group launched a new corporate structure. The business with cars, vans, as well as trucks and buses was integrated into the subsidiaries. Now, three legally independent stock corporations operate under the leadership of Daimler AG: Mercedes-Benz AG (responsible for the business of Mercedes-Benz Cars &



Vans), Daimler Truck AG (Daimler Trucks & Buses), and Daimler Financial Services (Daimler Mobility AG), which has been legally independent for years. Through this restructuring, Källenius has responded to changing market requirements proactively. Since February 2020, Daimler has officially set itself to improve and accelerate the development and production processes of vehicles, technologies, and services. This is intended to ensure consistent control and faster implementation of decisions. The proactive splitting up of the Group and the replacement of personnel form the basis for a modernized organization.

### *Risk-Taking (Competitive Aggressiveness)*

Established companies these days rarely take risks. *"While risk-taking is a common trait found in entrepreneurship, it doesn't come as easy to large corporates that are more comfortable in pursuing success using traditional, low-risk methods"* (Salikineedy, 2022).

However, this is precisely what is necessary to remain competitive in the long term: Investing in innovative projects whose success is uncertain. According to automotive analyst Jürgen Pieper, the Daimler Group has been lagging in terms of e-mobility ever since US investigation files proved (in 2018) that the Stuttgart-based carmaker had made modifications through software. "After the Diesel scandal, the Group reacted far too hesitantly and did not make any courageous decisions," said the expert (Damm, 2020). This is particularly evident in the fact that Daimler is still a long way from changing the entire production line to pure e-car production. The majority of cars produced by Daimler are still powered by diesel or gasoline (Statista, 2021). For example, the German subsidiary of Mercedes-Benz reported that in September 2020, only one in four cars sold had an electric motor – including Smart and presumably thousands of plug-in models from Mercedes. These figures show that Daimler has taken too few risks concerning e-mobility in recent years and is still far from its ultimate goal: an entire production of e-cars.

## **Result**

One main prerequisite for successful innovation is a human and financial investment in Research & Development (R&D). Between 2010 and 2019, a steady increase in Daimler's annual expenditure on R&D from 4.86 billion to 9.66 billion euros was observed (Statista, 2021). As a result, Daimler AG has successfully created a climate of innovation in recent years.

Risk-taking and innovation are only possible if the organization acts proactively. Through proactive personnel restructuring and the division of the Group, the company's ability to work efficiently was ensured. In contrast to the dimensions of innovation and proactivity, Daimler has not fully established an attitude of willing risk-taking in recent years. Although the company takes financial risks through partnerships and collaborations with start-ups, Daimler plays it safe in terms of battery development or charging stations.

Thus, the company implements the requirements of corporate entrepreneurship theory for the most part and, through this, creates the basis for future-oriented corporate management. Both employees and products are constantly challenged and therefore adapt to the situation. It remains to be seen whether Daimler will stay on the right track or take the wrong turn.

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# Corporate Entrepreneurship at H&M Germany

*Ida Hüllmann*

## The Concept of Corporate Entrepreneurship

Corporate Entrepreneurship (CE) aims to integrate entrepreneurial thinking and acting of the employees in large, established firms to foster innovation, maintain growth and stay competitive in the market (Burgelman, 1985). Entrepreneurs identify promising chances and develop new valuable products for the customer or even open new markets. This is at the core of start-ups, as they stand at the beginning of a company's life cycle. Therefore, the concept of CE aims to combine beneficial characteristics of start-ups with the advantages of the established firm which is further developed. Start-ups are young companies and have a small team, which allows flexible structures and implies low internal bureaucracy costs. Moreover, the entrepreneur knows each employee and open communication as well as working at the same place makes constantly exchanging ideas possible. The employees have a motivated, innovative mindset and often opportunities to work on own ideas and initiatives, so that entrepreneurial spirit is present. Thereby, this environment is great for innovation because it allows to experiment with new products, develop ideas together with customers and react quickly on changing markets. While growing, firms lose these qualities, but develop others such as building a network, having expertise, established processes and structures, experience in product development and more financial resources (Engelen et al., 2015).

CE seeks to connect the advantages of both, start-up environment and established firm. There is a variety of approaches how this concept can be integrated into firms, ranging from developing a more innovative culture at work to founding departments which invest venture-capital of the company in start-ups related to the company (Banzhaf & Wiedmann, 2006). Usually, applying CE in a firm results either from a crisis within the growth process of the company or is generally part of the running strategic process. Firms with a strong focus on CE are either young and constantly reinventing themselves due to competition in their branch or they are "innovative traditionalists" which are medium-sized family-owned firms, rich in tradition and worldwide market-leading in their field by constantly innovating their product but also trusting in the strength of their firm (Banzhaf & Wiedmann, 2006).

The success of applying CE depends on three principles: innovation, proactivity and risk-taking (Kuckertz, 2017). Innovation is the ability to develop new solutions by combining ideas and information. A creative environment and openness towards experimenting supports this process. Being innovative has several advantages as a new product leads to a monopoly position for some time and it is considered as positive by job applicants and customers so that loyalty towards the firm might increase. Proactivity “refers to the ability of companies to recognize changes in their environment and react before competitors to generate first-mover-advantages” (Engelen et al., 2015, 42). To be innovative it is necessary to invest resources in the development and testing of ideas or products even though the success is unclear at the beginning. Therefore, a certain willingness towards risk-taking is required. The success of risk-taking activities depends on the amount compared to secure activities a company follows at the same time (Engelen et al., 2015).

### **The H&M LAB Within H&M Germany as an Example of CE**

In this case study I focus on CE at H&M Germany, as Germany is the worldwide second largest market for H&M (05, 06). I gathered the information about everything related to H&M by reading annual reports, websites by H&M, articles and interviews. The numbers in parentheses in the following paragraphs are assigned to the respective pieces of empirical data, which are saved in an external database and can be handed out on demand.

H&M is a brand in the fashion retail industry and part of the H & M Hennes & Mauritz AB whose CEO is Helena Helmersson (04). Founded in 1947 in Sweden by Erling Persson, H&M today is one of the world-wide biggest companies in the fashion retail industry having more than 4,450 stores on 75 markets and 53 online stores in September 2021. H&M Germany belongs to the Region Central Europe, whose support office is in Hamburg and is managed by Thorsten Mindermann (07).

As a unique project within H&M, the H&M LAB which operates in the German market was founded in 2018 as an innovation unit of H&M Germany. It is also known as “H&M beyond.” (08, 09). The H&M LAB describes itself as a “[p]latform that creates local innovation in fashion retail. Through co-creation with customers and start-ups [they] want to develop products and services, which are loved by [their] customers and have a positive impact towards a sustainable future” (07). Their projects focus on “sustainability, digitalization and customer experience – offline as well as online” (03). The overall goal is to develop and test innovative ideas, which can be handed over

and scaled on the German market or even on other markets belonging to the region Central Europe such as the Netherlands or Austria (08).

There are several aspects of CE, which are evident in the conception of the H&M LAB.

### *The Emergence of the H&M LAB*

The H&M LAB emerged from a growth crisis within the company, which is a common situation in which companies apply CE to become more innovative (Banzhaf & Wiedmann, 2006). In 2018 the profit of H&M heavily decreased. The company faced the challenge of staying relevant for their customers as digitalization effected a shift of fashion retail from physical stores to online stores. H&M Germany needed innovation because it had lost its touch with the customer base. As a result once loyal customers started buying competitors' products online (03).

### *“A Start-up within a Larger Organization”*

The H&M LAB is connected to H&M Germany in a way that represents the idea of CE to combine the advantages of start-ups and an established firm. It works mainly independently from the day to day business at H&M Germany which allows a high degree of flexibility, speed and freedom to experiment. Furthermore, the projects at the H&M LAB deal with ideas which are not relevant for the present, but the future market to develop opportunities and give impulse in regards to the future of H&M Germany (02, 03). As Oliver Lange, head of the H&M LAB, stated in interviews, it “resembles a startup within a larger organization“ (09) and functions as a „Speedboat“ for H&M Germany, developing and testing ideas faster than it would be possible for the established firm (03).

In addition, the H&M LAB has a high customer focus, which is a typical characteristic of start-ups (Banzhaf & Wiedmann, 2006). For example, it uses the App of H&M to conduct surveys among the customers and does workshops with the target group to get insights in the customers' ideas and expectations (03, 09). Beside these start-up characteristics, the H&M LAB benefits from the resources of H&M Germany. As the core team of the H&M LAB only consists of three project managers, all the expertise of employees from the company is used to realise projects. Five projects during a year involve about 40-50 employees, who also benefit as they get to know a different, more agile way of working (08).

### *Innovation, Proactivity and Risk-taking Reflected in Projects of the H&M LAB*

A project which is realised in cooperation with NeXR-technologies, is the development of a virtual fitting solution tested in selected stores. It aims to make the stationary shopping experience more attractive (01). Another project that addresses a variety of challenges is the concept store “H&M Mitte Garten” in Berlin. The goal is to identify the unique characteristics of the brand as well as to get insights on how to create a bond with the customers (03).

The high degree of proactivity within the H&M LAB is reflected by the on-demand production of made-to-measure shirts in cooperation with their partner ZYSEME. Customers go to the website, fill out a form with information about their body size and get a made-to-measure shirt (07). Made-to-measure clothing used to be luxury and the H&M LAB addresses a completely new target group, which differentiates from its usual focus on the fast-fashion-industry. This project does not only follow the personalisation trend but also addresses sustainability, as on-demand production could completely change the fast-fashion branch (03).

The idea of the H&M LAB as a laboratory implies experiments and thereby also the option to fail and invest money in an unsuccessful venture. At the same time, the H&M LAB only needs few resources compared to the whole company H&M Germany. Oliver Lange describes their work as “creating maximal output with minimal invest” (02). Looking at H&M Germany as a whole you can say that the degree of risk-taking is not that high compared to the secure activities of H&M Germany. First testing innovative ideas on a small scale instead of directly implementing and scaling them all over Germany also reduces risk.

### **Conclusion and Reflection**

It is evident that the case of the H&M LAB has strong links with the theory of CE. However, it needs to be considered that the H&M LAB represents a small part of H&M Germany only, so that the concept is only applied at a limited scale so far.

In further, more detailed essays it would be interesting to investigate if there is any evidence of CE within other parts of H&M Germany. Additionally, the application and impact of CE on the whole firm on a global level could be examined.

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## **E.ON: An Example of Corporate Entrepreneurship?**

*Leo Jaspersen*

### **What is Corporate Entrepreneurship (CE)?**

In order to stay successful and competitive, a company needs to change with the market and constantly implement new innovations and ideas. Innovative and proactive behavior is playing a major role when a corporation is trying to strengthen and expand their market position. Acting accordingly to these goals is called CE (Kuratko, 2012, Page 226).

The First research on CE was already done in the 1970s, the definition of CE has changed many times since then (Kuratko, 2012, Page 227).

CE mostly consists out of two processes, Corporate Venturing and Strategic Entrepreneurship. In the course of Corporate Venturing, usually new businesses are founded and owned by the company (internal corporate venturing) or founded together with other partners / corporations (cooperative corporate venturing). Sometimes companies also invest into or acquire businesses created by parties which are outside of the corporation, these businesses are usually still very young (external corporate venturing) (Kuratko, 2012, Pages 228-229). Corporate venturing aims to make the firm more entrepreneurial active, to open up new opportunities and use unbound assets and to generate quick financial returns. Strategic entrepreneurship does not necessarily aim at founding new ventures, it's aim is to seek for new opportunities and build up advantages towards competitors. Innovations can arise from anywhere inside the company, so entrepreneurial thinking of all employees should be promoted (Kuratko, 2012, Page 230). A new innovation can be a total change in the business model of the corporation, in the product lines, the organization structure or can represent a bases on which the company differentiates itself from its rivals (Kuratko, 2012, Page 231).

There are two ways of determining how intensively a company is engaging into strategic entrepreneurship, to analyze how strongly a company has changed its business model over time and to evaluate how fast a company is transforming compared to its competitors (Kuratko, 2012, Page 231).

## **The E.ON SE (E.ON)**

The E.ON is an energy distributor who's active in large parts of Europe (E.ON, n.d.). Today (2021) about 78,000 employees supply roughly 50million customers (Jung Produktion, 2021, Page 2).

The company with its headquarter in Essen, Germany is mainly active in two operational business areas, the area of energy networks and the area of customer solutions (Jung Produktion, 2021, Page 20).

The business area called energy networks combines the operation, maintenance and expansion of electricity and gas networks (Jung Produktion, 2021, Page 20).

The business field of customer solutions includes the supply of customers from Europe with electricity, gas and heat, as well as the sale of products and services that contribute to energy self-sufficiency or more efficient energy use. E.ON offers customer solutions for both private and business customers. Its business with innovative solutions, such as its offers for charging electric cars, can also be assigned to this business area (Jung Produktion, 2021, Page 20).

In many cases, however, the two business areas cannot be clearly demarcated from one another, for example if a new connection to the energy network is to be laid for a customer (Jung Produktion, 2021, Page 20).

E.ON originated from two companies called Veba and Viag who decided to merge in September of 1999, uniting to E.ON in June of 2000 ( E.ON, n.d.). In the following years, E.ON expanded into other parts of Europe by taking over companies in different countries. From 2005 on, the focus shifted to raising the energy production by building new power plants. In the year of 2011, the biggest restructuring measures in company history were announced in order to stay financially stable and cut costs (Kunzl, 2014, Pages 18, 22 and 25). Under the slogan “Cleaner and Better Energy” which came from the chairman of the board Johannes Teyssen Divestments of around 15 Billion Euros by the end of 2013 were planned, but also more investments on the international level outside of Europe (Web Archive, 2010). In 2014 the decision was made to focus on the business areas of renewable energies, energy networks and customer solutions. The old business areas of conventional power generation and energy supply were combined in a new company (Heide, 2014) called Uniper (Web Archive, 2016, Page 10). In 2019 E.ON took over the subsidiary

company of RWE called Innogy (Jung Produktion. 2021, Page 21) and left RWE with its activities in almost all areas of renewable energies (RWE, 2020).

## **Does the Way E.ON does Business Correlate with the Ideas of Corporate Entrepreneurship?**

In the history of E.ON, many joint ventures, such as the acquisition of a 50 percent stake in the Turkish company Enerjisa Enerji in 2012 (E.ON, n.d.) or the founding of the E.ON Climate and Renewables in 2008, took place (Kungl, 2014, Page 22). The company also changed its business model after splitting off the business areas of conventional power generation and energy supply in a new company (Heide, 2014) called Uniper (Web Archive, 2016, Page 10). These actions could probably be depicted as Corporate Entrepreneurial behavior.

For this book chapter I will only look at a decision recently made by E.ON, the process of E.ON taking over Innogy from RWE in 2019 (Jung Produktion, 2021, Page 21), because analyzing all actions taken in the company's history would exceed the given framework.

With the takeover of Innogy, E.ON gave up nearly all assets from the sector of renewable energy production to RWE (Jung Produktion, 2021, Page 20). After this step, E.ON is left with an unimportantly small number of facilities who still produce energy. This is pretty astounding when considering that in the year of 2004, the business with energy accounted for 98% of the company's sales (Kungl, 2014, Page 20). As a result of the takeover, E.ON gained access to a larger part of the German and central European electricity networks raising the energy quantities transmitted by E.ON in billions of kwh from 2019 to 2020 by 153.8 (Jung Produktion, 2021, Page 42).

This decision highlights E.ON's new path of concentrating on the business fields of energy networks and customer solutions which is a good example for the idea of corporate entrepreneurship.

## **Evaluation**

E.ON changed from being one of the biggest German energy producers to being one of the leading distribution network operators in north and central Europe (Jung Produktion, 2021, Page 15). Instead of producing energy to sell, E.ON now earns money by transporting the energy others produce. That is a big shift in E.ON's business model and can therefore be seen as entrepreneurial

behavior. E.ON is still working in the same economic sector as before, but in a totally different area of that sector.

Non the less, some of the earlier changes in E.ON's group structure didn't only happen because of good innovative work within the company. The nuclear energy act of 2002, banning the construction of new nuclear power plants (Kungl, 2014, Page 13) and the implementation of the Nuclear energy act in 2011, causing the immediate shutdown of 8 German reactors (Kungl, 2014, Page 24), forced E.ON to gradually cease operating nuclear power plants in Germany. The fiscal crisis also put a lot of pressure on all of the big German energy suppliers, including E.ON, leading to major cost cuts (Kungl, 2014, Page 23). These are just two examples of exogenous effects which forced E.ON's management to apply rapid changes to the company.

However, the concept of Corporate Entrepreneurship still applies. Reacting appropriately in the event of an emerging crisis and trying to lead the company out of that crisis by applying innovational thinking and seeking opportunities is definitely entrepreneurial behavior and a part of the idea of corporate entrepreneurship.

Aside of that, the case of E.ON taking over Innogy, which I mostly focused on, in my application of the concept, was not pressured by an upcoming crisis, but arose from the aim of healthy growth and fulfilling new goals.

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# Corporate Entrepreneurship: The Reason for CLAAS's Success

*Saskia Kopietz*

## Introduction

In the face of an increasingly globalized and digitalized world, companies and organizations must continually find new ways to adapt to the constantly changing markets, consumer needs and technologies. Therefore, it is essential for them to find different approaches that can help to form and nurture more progressive and innovative ideas, enabling them to remain competitive and gain advantages over their rivals. A management strategy will heavily influence the organizational performance of the firm; hence it is important to thoroughly consider all potential risk factors before choosing one. Because of this, the concept of Corporate Entrepreneurship (CE) is becoming more and more popular among companies and is often seen as the ideal strategy to create an entrepreneurial organizational environment (Adonisi, 2003). This chapter will start with an explanation of the concept of Corporate Entrepreneurship and end up comparing it to the management strategy used by the international manufacturer CLAAS after giving a short description of their case.

## Corporate Entrepreneurship

According to Zahra (1993), Corporate Entrepreneurship describes "... a process of organizational renewal that has two distinct but related dimensions: innovation and venturing; and strategic renewal." (Zahra, 1993, as cited in Holt et al., 2016, pp. 41-42). It, therefore, promotes entrepreneurial behavior of individuals to enhance the overall performance of the company and develop new innovative products and systems using the resources at hand. The overall goal of Corporate Entrepreneurship (CE) is to improve the profitability and competitive position of an already established organization by renewing, reshaping, or innovating new strategies, products, concepts, and processes. CE heavily depends on two important elements: external factors and the individual. External environmental factors can offer new entrepreneurial opportunities, which can help the company establish a superior position in the market if they can notice and exploit them before their competitors. This, however, all depends on the motivation and behavior of the individuals working for the organization, as they are the driving force behind any innovative ideas. Consequently, the whole innovation process depends on the individual's personality and field of



work. For that reason, managers try to encourage entrepreneurial behavior by rewarding and reinforcing their employees. Furthermore, there are administrative and social arrangements in place to simplify the innovation process by offering necessary resources, time, financial support, and education. Organizations using Corporate Entrepreneurship as their main management strategy also need to consider business venturing and risk-taking as two main success factors of their entrepreneurial projects. Managers use the knowledge gained through prior innovation projects to assess and evaluate all risks that could possibly occur and then decide whether a specific venture will be executed or not, depending on its overall usefulness to the firm (Adonisi, 2003).

One of the main reasons why companies choose CE as their management strategy are the many benefits accompanying it. Entrepreneurial behavior inevitably causes companies to produce a range of diversified products. This allows them to enter different markets than they normally would have, expanding their target audience significantly and increasing their customer base. In addition, the knowledge gained through organizational learning can help the company build a solid foundation for new or improved development cycles and concepts which enables them to outperform their competitors. Furthermore, research shows that CE can cause an improvement in organizational performance and increase growth and profitability which leads to significant financial benefits (Holt et al., 2016). On the contrary, there are several risks accompanying the strategy as well. Firstly, companies need to be aware of the hostile environment large organizations often offer for creative and entrepreneurial ideas and the huge rate of failure thereof. Moreover, innovative ideas are often shut down due to long bureaucracies, financial support systems and other formalities. Another weakness to consider is the possibility of the new business venture being isolated and not harmonizing with the rest of the business. This would reduce the likelihood of its success and commercial feasibility significantly and cause inevitable tensions and conflicts for management (Adonisi, 2003).

## **CLAAS Group**

CLAAS is an international manufacturing company for agricultural machinery and engineering equipment. Their headquarters are based in Harsewinkel, North Rhine-Westphalia and there are currently four manufactures based in Germany as well as eight sites abroad. The company is known to be the European market leader in combine harvesters and was founded by August Claas in 1913. The family-owned business, which is now in the hands of the third generation, employs around

11.900 people worldwide and earns more than 75% of its revenues from international markets. In the last two decades CLAAS has experienced an extraordinary growth period in which its turnover has increased from about €500 million at the start of 1990 to around €4.8 billion in 2021 (CLAAS Group, 2021). But how did they achieve such a significant growth? What kind of strategy does the firm use? To answer these questions, we must first analyse CLAAS's own management strategy as described in their annual reports from 2020 and 2021 and then compare it to the principles of Corporate Entrepreneurship.

### *The Strategy*

CLAAS's overall goal is securing their international market position and ensuring continuous growth in a sustainable and profitable way. To increase their global significance even more, the company will concentrate on improving their sites abroad and introducing more harvesters and machines that fit the regional needs better (CLAAS Group, 2020). Their primary focus lies on customer support and assuring the best possible outcomes by continuously improving their customer service systems. This also allows them to give quicker responses and offer better solutions to occurring problems which significantly improves their competitive position. In their report they also state that the company is in constant exchange with their dealers as well as customers and always works on improving technologies in every sector. CLAAS specifically trains and educates their employees to provide better customer service and ensure up to date and relevant expertise. The company values entrepreneurial behaviour and strives to renew their processes and products to make them as efficient as possible (CLAAS Group, 2021).

### **CLAAS's Strategy and Corporate Entrepreneurship**

On their website CLAAS states their "strategy has been oriented towards innovation from the very start" (CLAAS Group, <https://www.claas-group.com/>) and claims to "think and act entrepreneurially" (CLAAS Group, 2020, p.16). As these two statements reflect the principles of Corporate Entrepreneurship, the strategy will now be applied to the case of CLAAS.

The company's income statement from 2021 shows that their expenses in research and development have increased by €25.7 million and now amount to about €251.9 million (CLAAS Group, 2021). This underlines CLAAS's strong interest in "innovation and venturing; and strategic renewal" (Zahra, 1993, as cited in Holt et al., 2016, p.42), which are the two main factors of

Corporate Entrepreneurship, as they claim that research and development play a pivotal role within their innovation cycles. Realizing the correlation to entrepreneurial behavior, the firm describes risk-taking as a central part of their strategic management, another similarity to CE. CLAAS even uses a “Group-wide risk management system” (CLAAS Group, 2021, p.21) which helps to monitor and evaluate all potential dangers. It ensures all risks are considered and handled responsibly, monitors budgets and projects possible earnings to help the firm decide about the feasibility of new innovations or renewals without endangering the company. CLAAS, therefore, shows responsibility and awareness concerning the risks their entrepreneurial actions could cause and has preventative measures in place to counteract them (CLAAS Group, 2021).

## **Reflection**

After comparing CLAAS’s management strategy to the principles of Corporate Entrepreneurship a lot of similarities could be identified immediately. However, there are some important aspects missing from their strategy report which are crucial to the concept.

It becomes evident that CLAAS and CE both set value on business venturing, innovation, and strategic renewal, and pursue the common goal of retaining an important competitive position within the market while improving their profitability and growth. They both consider risk-taking as an essential success factor for entrepreneurial and innovative behaviour and use the knowledge gained through organizational learning as a tool for decision making. However, it is not exactly clarified what the innovation process looks like in detail. There is no information given about specifically reinforcing or reassuring their workers to seek out entrepreneurial opportunities themselves, which is considered a central part of the Corporate Entrepreneurship strategy. In their reports the firm does not mention external factors as beneficial opportunities for entrepreneurial behaviour either, though CE clarifies their importance in retaining the competitive position of the organization.

In conclusion one can say that CLAAS’s management strategy builds on some key elements of Corporate Entrepreneurship which might be one reason for its huge success within the last few decades. Innovation and entrepreneurial thinking are two necessary elements firms need to make use of if they want to stay competitive in today’s everchanging globalized and digitalized world. However, CLAAS’s strategy also incorporates aspects which are not considered in the concept of

CE and vice versa. Their huge growth period, therefore, does not completely result from Corporate Entrepreneurship but was significantly influenced by it.

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# Corporate Entrepreneurship at Google LLC

*Tara Naumann*

## Concept in Play: Corporate Entrepreneurship

Corporate Entrepreneurship is the concept of entrepreneurial thoughts and acts applied by all employees within mid-sized and larger companies that are already established on the market - not only during the start-up period but as a basic part of the operation (Blöcher, 2018).

The concept and its name were mainly influenced in 1990 by the American professors of Management William D. Guth and Ari Ginsberg. Nevertheless, it is an evolving concept that got newly defined and slightly changed by many other economists over time.

The goals of Corporate Entrepreneurship are new innovations, flexibility and agile dynamics within a company to be able to respond quickly to changes in the market and to ideally make a profit from them (Blöcher, 2018). Through pro-activity it is possible to recognize changes in the market followed by adequate actions before other competitors. Hence, the company has the opportunity to gain pioneer advantages (Kennedy, 2018).

The competitive superiority could put pressure on the company's competitors since companies that do not develop new ideas or innovations and therefore do not react fast enough to changes are forced out of the market.

In order to create value and to generate or accelerate revenue growth, it is required to regularly develop new ideas and innovations as well as to persistently define and practice new entrepreneurial goals within a company (Kennedy, 2018).

For Corporate Entrepreneurship, the idea of keeping a long-lasting competitiveness through strategic renewals but also innovative new businesses, products or services should not only be put into practice by managers but rather by every employee of the company through giving them the opportunity in terms of data, time, education, encouragement and financial resources in the form of investments to develop their own ideas and innovations.

The manager's task meanwhile is mainly focused on supporting their employees and giving them enough space, e. g. through minimizing bureaucracy, to develop their own ideas while encouraging them to think and act like an entrepreneur (Kennedy, 2018).

The opportunity to self-fulfillment boosts the motivation of their employees which often leads to an increased work productivity that the company then benefits from.

Furthermore, through the validation of their skills, knowledge, ideas and opinions on the part of the management, employees are more satisfied with their job. This results in the retention and also recruitment of motivated, passionate and committed employees that are driven by putting their plans, ideas and visions to practice (Kennedy, 2018).

A further indicator of Corporate Entrepreneurship is a flat hierarchy inside a company with a good communication within a well-established network. In cross-functional teams, employees with different qualifications and different work experiences get the opportunity to exchange ideas and to inspire or help one another (Prof. Dr. Blöcher, 2018).

In order to support their employees in creating pioneering and progressive ideas, companies are willing to take risks by investing in those new innovations (Kennedy 2018).

They are also able to compensate the mistakes that are made during the process of creating and trying out new ideas and innovations.

Another version of Corporate Entrepreneurship is Corporate Venturing where companies get new external business ideas and innovations by buying or investing in new start-ups (Emprechtinger, 2018). That way, companies get to use ideas from external companies for their own business.

Although, Corporate Entrepreneurship is occasionally seen as an expensive and time-consuming management concept, it leads to motivated and more satisfied employees as well as to new profitable businesses, products, services and internal strategic processes that secure the competitiveness of companies.

### **Case Description: Google LLC**

The Google Limited Liability Company is an American technology company with its headquarter – named the “Googleplex” - in the Silicon Valley, California (BBC, 2019).

Google specializes its work mainly on software services and products related to the Internet, such as the search engine “Google Search”, the navigation system “Google Earth” or the video platform “Youtube”. Since 2016, Google has also released several hardware devices such as the “Google Pixel” smartphone series or the “Google Home” smart speakers.

On September 4, 1998, the technology company was founded by Larry Page and Sergey Brin. Ever since, Google developed into the third most valuable company worldwide (Statistisches Bundesamt, 2021). Especially during the last few years, Google's revenue rapidly increased, e. g. between 2015 and 2020 where it increased from 74.54 billion US\$ to 182.53 billion US\$ (Statistisches Bundesamt, 2021). The company's majority of revenue - about 146.92 billion US\$ in 2020 (Statistisches Bundesamt, 2021) - is earned through Search Engine Advertising and in the field of search engines, Google has a market share of about 92% with its innovation "Google Search" (Statcounter, 2021).

In 2019, with more than 70 offices in around 40 countries, Google employed about 102,000 employees permanently and a further 121,000 temporarily (Wakabayashi, 2019).

Google is not merely known for its products and services but also for its distinctive internal work environment. The company is known for its culture being based on respect, integration and encouragement towards one another where interns e. g. are treated and valued like permanent employees (*Google intern's first week*, 2013). Google's employees get a relatively high amount of free time and get encouraged and motivated to learn new skills which include trusting and believing in their own ideas as well as not fearing failure.

Google got honored with the "Best Global Culture 2021" award as well as the "Best CEO 2021" award by Comparably and claims the sixth spot in the ranking of the best places to work at in the US by the "Employees' Choice Award" by glassdoor in 2021.

## **Corporate Entrepreneurship at Google LLC**

While Google was founded in the late 1990s and became a huge multinational company during the last 23 years, it still hasn't lost its start-up spirit.

Corporate Entrepreneurship is applied at Google. The entrepreneurial and open environment supports the frequent development of new products and services, for one of the few constant factors of the company's philosophy are innovation and evolution.

The hiring process at Google is fairly strict and takes a long time so they only hire employees with fitting personalities for their work concept. That is the reason why only about 7,000 out of the 2 million applicants get hired by Google each year. During the application procedure, Google does not only factor the professional background of job candidates but more so entrepreneurial character



traits like curiousness, creativity, solution & team orientation and the passion for learning. Applicants get only hired by Google if they have the courage and wish to bring their own thoughts and ideas into projects with their coworkers (Li, 2020).

The company has a flat organizational structure and chiefly works in project teams.

Google tries to build the internal communication as transparent as possible (*Creating an Idea of Innovation*, n.d.). Therefore, they support interactions between their employees and have an open communication policy, so that each employee has the opportunity to voice up and share their opinion, idea or concern – also directly with the CEO.

As part of Google's culture, the management and teammates have a friendly and respectful relationship, built on trust towards one another.

In addition, the technology company supports mobility regarding different job positions. Employees get to change their project teams in order to broaden their horizon, work on their strengths and weaknesses and bring new ideas to projects with different colleagues (Li, 2020).

Additionally, as incentives, the company rewards employees that provide innovative ideas, plans or solutions. While Google's employees get paid a salary within the industry's average, they can earn additional bonuses for their innovative, profitable ideas.

In the course of the so-called “Founders Award”, awarded quarterly by the company, the work teams with the best idea get restricted stock options (Finkle, 2012).

For being able to unleash their full creativity, employees at Google get offered flexible work schedules. Also, during the hybrid work week, employees get to spend roughly 3 days in the office and further two days at a place they feel most creative and productive at (Li, 2020).

A rule of Google is as well “Think 10x” which implies the improvement of a product or service through new ideas by ten times rather than 10% (*Creating an Idea of Innovation*, n.d.).

70% of their work time, employees get to spend with projects which belong to Google's core business. 20% of the time, they are offered to pursue side projects of their choice and interest that can be spent on educating themselves on new topics and working alone or in teams with colleagues on new ideas and innovations. The remaining 10% of their work time, employees are offered to spend on doing projects that are unrelated to the core business of Google in order to stay motivated and find new inspiration (*Creating an Idea of Innovation*, n.d.).

In doing so, they get encouraged to get creative, new ideas and solutions from everywhere.

## Reflections

Corporate Entrepreneurship is remarkably good applicable to the case of Google and the increasing success and power of the technology company confirm the advantages of the concept since it is an established part of the company's organizational structure for many years. Corporate Entrepreneurship may not be the only success factor for Google but it has pushed on many innovative new businesses, products and services that were released by the company. Google's employees get encouraged to think and act like entrepreneurs with the intention to develop new ideas, plans & innovations to fill in needs or solve existing problems in the market. The inner work culture serves as a motivation for employees and is an incentive for many qualified applicants. The concept of Corporate Entrepreneurship is, as shown, practicable and profitable for established companies with sufficient resources that aim to be inventive, flexible, dynamic and consequently able to react quickly and prepared to changes in the market.

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## **Amazon as an Example of Corporate Entrepreneurship**

*Ida Petersen*

### **Corporate Entrepreneurship**

Especially because of the growing globalization of the world economy, it is becoming much harder for existing companies to remain competitive with younger, more agile start-ups. Therefore, corporate entrepreneurship is gaining more recognition as a key for established firms to stay entrepreneurial. To sum it up, corporate entrepreneurship is a concept that leads to the development of new products and services, by encouraging employees to think like entrepreneurs and develop new business ideas (Kennedy, 2018). After it was first introduced as a strategy, that helped companies, dealing with market turbulences by Peterson and Berger in 1971, it got transformed by Robert A. Burgelman and Danny Miller into a whole new concept, called corporate entrepreneurship, focusing on innovation, venturing, and strategic renewal within a firm, in 1983. (Kamal Sakhdari, 2016). Constant innovation is a requirement for a successful company. Still, lots of older and larger companies struggle to develop new strategic ideas, because they are stuck in their structures. To avoid bankruptcy, it is important to create an entrepreneurial culture by implementing corporate entrepreneurship programs, where not only the management but all the employees, feel encouraged to think creatively and know that taking a risk and receiving failure is not only tolerated but necessary for development. (Kennedy, 2018). Having the opportunity to benefit from job security, in case a project fails, enough resources like R&D, an existing brand, a customer base, and access to finances makes it even more beneficial for a large company to take risks like a start-up, because mistakes and failure won't have a huge (financial) impact on the firm and can be balanced quite easily. (Williams, 2010). Still, corporate entrepreneurship is hard to implement, and organizations often tend to get in their way, by investing in current projects instead of focusing on higher risky but more rewarded ventures. (Kennedy, 2018).

### **Amazon: A Company that Manages to Stay Entrepreneurial and Successful**

As one of the most successful companies to ever exist, that has ruled the world market for over 20 years now, Amazon can be seen as a great example of corporate entrepreneurship.

## *The History of Amazon*

Amazon was launched on July 5<sup>th</sup> in 1994 by its founder Jeff Bezos under the name Cadabra Inc., which was changed after only 3 months into its now known name. After He registered his domain, Amazon.com on November 1<sup>st</sup>, 1994, he opened Amazon as an online bookseller in July 1995 in Seattle, Washington. The company itself was financed with only \$10,000 from Jeff Bezos's own savings and has its roots in Bezos garage, where the staff would ring a bell every time a customer purchased a book. The sales figures were so high that only one month after Amazon's launch, they were doing \$20,000 per week in sales and sold books in all US states and 45 different countries. Therefore, Jeff Bezos hired 250 new employees by the end of 1995, who constantly worked overtime. (Capitalism.com, 2020). Still, Amazon was struggling to meet the increasing demand, and Bezos decided to release its own IPO at just \$18.00 per share, which made Amazon raise \$54 million. In 1998, Amazon finally decided to transform into an 'Everything store' and begins with expanding its offers into music. (DePillis, L., & Sherman, I., 03.02.21). Since then, Amazon constantly developed and invested in new projects. As of today, Amazon employs 563,000 employees worldwide and has made a total market cap of \$1.7 trillion. (Reiff, 02.10.21).

## **Amazon: A Pioneer for Corporate Entrepreneurship**

In the following paragraph, I will get more into detail on how amazon used corporate entrepreneurship to increase its productivity and what projects helped the firm to grow its net worth and success.

One reason Amazon is developing so fast is because of its various ventures, that are constantly joining the market. One of the earliest revolutionary inventions was the "1-Click Button" which was first used in September 1999. It is a concept that makes it possible to buy a product with only one click, which made the shopping experiment much easier and results in higher sales figures. Over the years many companies tried to imitate the "1-Click Button" but failed because Amazon was smart enough to get a patent, for this method, that expired in 2017. (Capitalism.com, 2020). Another approach was the "Free super saver shipping", a great opportunity to receive free shipping if you spend more than \$99. (Ranadive, 2015). On February 2<sup>nd</sup>, 2005, Amazon finally introduced today's well known "Amazon prime", a customer loyalty program that offers you 2-day shipping on any order in the US, free watching of online movies, unlimited storage for photos in Amazon

Cloud Drive, and more, in exchange for a payment of \$99 per year. Over the years Amazon even started to publish its own movies and series that are only available for prime members which convinced even more people to finally join the “Amazon club”. The currently 150 million Amazon Prime members are statistically more likely to spend more money on Amazon, which again raises the sales figures and makes Amazon well known in our society. Still, Amazon did not only create new projects but also invested their money in a minimum of 128 businesses and acquired at least 44 companies since 1998. A few examples of acquisitions are Whole Foods, Audible, and Twitch, which all have an extremely high net worth. As Amazon is one of the biggest online retailers and has lots of experience with the so-called internet, Bezos realized that running its own business operations on invested computers and servers could be developed into a profitable business idea, and therefore in 2006, Amazon Web Services (AWS) got introduced. In sum, AWS lets smaller or bigger businesses, like Netflix or Pinterest, rent their servers, for an affordable price to run their websites. Besides that, Amazon sells products that are from its more than 80 private-label brands, which obviously can’t always compete with well-established companies, but still lead to customer loyalty, because you can only get products from these brands at Amazon (Tyler, 2018). As well as creating its own brands, Amazon constantly tries to release new products like the Kindle e-reader, which reached unbelievable sales figures since it started to sell in 2007. Finally, on January 22<sup>nd</sup>, 2018, Amazon Go, got introduced and revolutionized the grocery shopping experience with a whole new concept. If you enter one of the 26 “Amazon Go” stores you don’t have to interact with any staff members, but can just pick whatever you want, and while leaving the market, a system automatically scans what you got and sends a bill to your Amazon account. The only requirement for that is the use of the “Amazon Go app”. (Capitalism.com, 2020). Those were only a few examples of what brought Amazon to where it is today, which shows that not only did Amazon constantly develop its own structures but managed to expand its business into various directions, that are adjusted to modern needs.

It seems that Amazon is always one step ahead and therefore able to fill some gaps in the market before other companies can even think of them. Amazon’s leadership team did contribute a lot to this success. Most of the above-named ideas and inventions were founded and realized by different executives who often have been part of the company for quite a long time. Amazon Prime for example was invented by a team of Amazon employees, led by former Amazon VP Greg Greeley. He says “We really wanted everyone to be thinking about new ideas that would benefit our

customers. No one in the leadership team thought that there was a monopoly on good ideas that they could only come from a certain group. In fact, we worked really hard to develop the muscles so that we could surface ideas from across the company.” (Rowley, 2021). To make it easier for employees to express their ideas or be part of the decision-making process they can put their ideas into the digital employee-suggestion box. This does not only allow the staff to play a bigger part in the company but also increases motivation within the labor force. (Greene, 2015).

## **Failure and Criticism of Amazon**

The fact that Amazon is building its business on so many different levels makes it easy for the company to make up for failure and flops. And even though Amazon is well known for its constant success and many ventures seem to work out, over the years amazon launched a few products or started some business ideas that didn’t have the desired level of success. One well-known failure is the Fire phone, amazon’s own smartphone that entered the market on June 18<sup>th</sup>, 2014. But after only one year the production got ceased, because of low sales figures. Still, amazon learned from its mistakes and plans on producing another, cheaper, smartphone, but only selling it in developing countries like India, where the smartphone might have higher chances of success. (DePillis, L., & Sherman, I., 03.02.21). Another project that got shut down after almost four years is the, in 2015 launched, Amazon restaurant service that delivered food to nearby restaurants. It got closed because they were simply too late in this field and had too much competition. Nevertheless, that didn’t stop Amazon from investing \$575 into “Deliveroo”, which successfully delivers to thousands of restaurants in Europe. (Fruhlinger, 2019). It’s easy to see, that even though Amazon does not always succeed, they manage to learn from their mistakes and develop failed projects into new ones. On top of that, are the few failures nothing, compared to the many successful projects and can be balanced quite easily. By focusing on constant idea development, the chances are good that Amazon will become even more successful in the future. They already have a few new projects ongoing, like a futuristic delivery system, called Prime Air, which would reduce the delivery period for packages by 30 minutes, because of the use of small drones. Since 2013, where the program was first announced, there have been multiple tests and Amazon finally managed to get a “Part 135 air carrier certificate”, which allows the company the use of drones. (McFarland, 2020).

To sum up, Amazon continuous to surprise and revolutionize the business world. By implementing corporate entrepreneurship programs, they managed to expand their business into various areas and become a pioneer in them.

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# The Concept of Corporate Entrepreneurship Applied to Netflix

*Lena Dorothea Pods*

## A Definition of Corporate Entrepreneurship

In the following I will elaborate on the Concept of *Corporate Entrepreneurship* mostly referring to Kuckertz (2017) and Hang (2016). In contrast to common perception, *Entrepreneurship* and founding a start-up are not identical: acting entrepreneurially can also happen in an already existing corporate setting (Kuckertz, 2017). The concept of *Corporate Entrepreneurship* is based on the needs of already established firms and companies to “renew themselves” (Hang, 2016, p.25) and to be entrepreneurial again, i.e. creative, innovative, flexible and as disruptive as necessary. This enables them to stay competitive, explore new markets and expand their businesses (Hang, 2016). For example, higher customer expectations, fast technological development, the changing of ethical and legal standards, globalization and limited resources enforce entrepreneurial thinking and acting (Kuckertz, 2017). Researchers use a variety of different terms to refer to the entrepreneurial efforts within an existing organization (Hang, 2016). Frequently used terms in literature are *Intrapreneurship* as well as *Strategic Renewal* and *Corporate Venturing* which are an important part of the concept of *Corporate Entrepreneurship*. The terms are often used interchangeably in a lot of studies. It is however important to distinguish between those terms as they refer to slightly different things (ibid.).

### *Corporate Venturing*

The phenomenon of *Corporate Venturing* refers to the entrepreneurial effort to create new businesses within the corporate organization, for example by exploring new markets (Hang, 2016). These efforts can then lead to the formation of new organizational units within the existing corporation. It is important to distinguish between *External* and *Internal Corporate Venturing* (ibid.). *External Corporate Venturing* results in the creation of autonomous organizations outside of the already existing business domain. *Internal Corporate Entrepreneurship*, which is often also referred to as *Intrapreneurship*, is thus the attempt to take the mindset and behaviors of external entrepreneurs and bring those characteristics to the already existing corporate setting (ibid.).

## *Strategic Renewal*

*Strategic Renewal* refers to the entrepreneurial behavior within an established organization that results in significant changes to the organization's business strategy or structure (Hang, 2016). Those changes can have an impact within the organization as well as on its external environment. This most likely then also results in some sort of innovation. However, it is important to acknowledge that those activities of renewal within the organization are not to be seen as the creation of new businesses (ibid.). That is the major difference between *Corporate Venturing* and *Strategic Renewal* as *Strategic Renewal* only leads to the structural reorganization of existing business within the corporate setting whereas *Corporate Venturing* involves the actual creation of new businesses, usually through radical innovations (ibid.).

## *Innovation and the Innovator's Dilemma*

Essentially, innovation is the result of both *Strategic Renewal* and *Corporate Venturing* as those phenomena suggest changes in either the strategy or structure of an existing corporation, which then involves or results in innovation (Hang, 2016). However, already established firms often struggle with the *Innovator's Dilemma* (Reiter, 2016). This is when successful companies do not focus on innovative disruption but hold on to their established business strategies as those have been successful in the past (ibid.). A common result is that start-ups or other innovative companies take the chance to revolutionize the market with their more disruptive behavior which eventually leads to driving established firms out of the market if they have missed to adjust to the market changes and did not act disruptively and entrepreneurially enough (Derr et al., 2021).

## *Corporate Culture*

Another important aspect of *Corporate Entrepreneurship* is the company's culture and the working environment (Reiter, 2016). In order to create innovation, employees need to be encouraged and supported by their company to 'think outside of the box'. They need to be provided with the freedom and responsibility to create innovation, but they also need to feel that it is acceptable to make mistakes and learn from them. Only if those conditions are fulfilled, it is able for large corporations to stay creative (ibid.). I will further elaborate on the importance of *Corporate Culture* when applying the concept to the company of Netflix.

## The Company of Netflix

What started as a small DVD-by-mail- rental service is now one of the most successful on-demand streaming services worldwide, based on a monthly subscription that allows members to watch a broad variation of movies and series without any commercials (Derr et al., 2021). Today Netflix has more than 200 million users and is streaming in more than 190 countries (About Netflix-Homepage, 2022). The idea of Netflix was born in 1997 when founder Reed Hastings got charged with a \$40 fee for an overdue rental DVD from Blockbuster, the largest company in the business of DVD rental back then (I., 2021). That was the moment Hastings realized the DVD rental space needed disruption and change. Together with co- founder Marc Rudolph he decided to launch the company Netflix later that year (Derr et al., 2021). The unique feature of the company was the monthly subscription fee enabling customers to rent DVDs which then would be delivered directly to them by mail (ibid.). At that time, Blockbuster was the most powerful company in that business, but Reed Hastings continued to promote Netflix nonetheless as being “a better deal that was more affordable and efficient” (I., 2021, para.2). In 2010, Blockbuster filed for bankruptcy while Netflix had grown even more to 16 million monthly users (I., 2021). In contrast to its competition, Netflix had realized the potential for online on-demand streaming services and had quickly adapted to the new market requirements through investing into new technologies and making use of digitalization (Derr et al., 2021). In order to stay competitive, Netflix also started to produce its own shows in 2011, which can exclusively be watched on the platform, further contributing to the company’s success (ibid.).

## Netflix Applying the Concept of Corporate Entrepreneurship and Reflection

As an entrepreneur, Netflix’ CEO Reed Hastings has always watched the market and adjusted to it, which has helped the company stay ahead of its competition (I., 2021). In fact, his behavior is also an essential aspect of *Corporate Entrepreneurship*. Being “big, fast and flexible” (Walls, 2021) is what Hastings is trying to focus on with his company. This may seem contradictory at first, as large corporations often seem to have problems to stay “fast and flexible” (ibid.) due to their bureaucracy. However, the concept of *Strategic Renewal* is not only at the core of *Corporate Entrepreneurship* (Hang, 2016), but it is also an important part of Hastings’ mindsets when it comes to his business and his managing style. Hastings thinks that innovational thinking should be an ongoing process and should not stop once a corporation has accumulated a large number of

customers (I., 2021). In fact, in 2014 the company was voted “Entrepreneurial Company of the year” by the *Stanford Graduate School of Business* (Reed Hastings, Netflix: Stanford GSB 2014, Entrepreneurial Company of the Year, 2014, 0:46) which is evidence for how successfully Netflix functions as a corporation aligning with the concept of *Corporate Entrepreneurship*. Another aspect of *Corporate Entrepreneurship* is the condition that within the company, innovational thinking is enabled and encouraged (Reiter, 2016). Besides the entrepreneurial skills founder and CEO Reed Hastings used to his advantage, his ideas regarding the company’s culture certainly are another reason for the success of Netflix. “Freedom and responsibility” (Netflix Culture: Freedom and Responsibility, 2019) and the encouragement of being “big risk- takers” (Netflix Culture: Freedom and Responsibility, 2019, 0:07) are at the core of the company’s philosophy. Consequently, this gives the employees at Netflix a large amount of freedom which then contributes to a better functioning team and a better working environment overall. Of course, mistakes will be made but Hasting’s philosophy on freedom for employees implies that it is acceptable to make mistakes and learn from them (Netflix Culture: Freedom and Responsibility, 2019). Often, taking risks, even if a lot of ideas may fail, is actually what is needed in order to keep thinking ‘out of the box’ and to stay ahead of the competition. Nonetheless, it is important to note that the source of these statements is Netflix itself, consequently one would need further analysis to make sure that these statements reflect the reality of Netflix’ *Corporate Culture*. Against the background of these current challenges Netflix has to face, the current business prognosis is dissatisfying due to the increasing competition (DER SPIEGEL, 2022) and the demand for Netflix to become a “green” company (Parker, 2021, para.2). Netflix will have to prove that they are capable of applying the principles of *Corporate Entrepreneurship* once more to stay competitive and match the ethical standards.

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# Google LLC and Its Realization of Corporate Entrepreneurship

*Tim Niklas Raack*

## The Structure and Philosophy of the Company Google LLC

Google LLC is a multinational technology company that was founded on September 4, 1998, by Larry Page and Sergey Brin in California. (“Google LLC,” 2022) Nowadays, Google joins Amazon, Facebook, and Apple, as one of the largest and most effective companies in the world. The company specializes in internet-related services and focuses especially on the development of software and hardware. Since October 2, 2015, Google has belonged to the holding Alphabet Inc. due to a general structural change of the company where the founders Larry Page and Sergey Brin became the CEOs of Alphabet Inc. and Sundar Pichai was introduced as CEO of Google LLC. In 2019, Page and Brin resigned as CEOs, and Sundar Pichai was selected to be the CEO of Alphabet Inc. and Google LLC. (“Google LLC,” 2022) Today Google is one of the most valuable companies and brands worldwide. The general public mainly knows Google LLC for its internet program Google Search, which is the most visited website on the internet. In 2018, Google Search received 73.4% of all search requests from computers. (“Google LLC, 2022”) However, Google also owns a variety of other important internet services and innovations. YouTube, Google Docs, and Google Maps are just a few more of the well-known internet programs that belong to Google. As a result of all these services, Google is one of the most competitive companies in the world. Nevertheless, they must focus on remaining competitive on the market, especially given the highly competitive and rapidly changing business world with its large number of start-ups, which are constantly trying to displace Google from the top of the most valuable and effective companies in the world.

## The Concept and Principle of Corporate Entrepreneurship

There are many entrepreneurial concept descriptions of possible work structures in companies which allow established businesses to stay competitive alongside the “smaller, faster and more agile companies” (Kennedy, 2018), such as start-ups. Corporate Entrepreneurship is one of these entrepreneurial concepts, and, in the case of established businesses, it is “widely being recognized as the [main] answer to these organizational woes”. (Kennedy, 2018) The concept focuses on fostering innovational thinking in already existing companies in order to remain successful. Therefore, Corporate Entrepreneurship promotes innovational thought and behavior, which should



lead to new services, products, or even new businesses within the established firm. (Corporate Entrepreneurs, 2022) As a result, a business can continuously increase its own value and can sustain growth and success. Moreover, a successfully implemented innovational philosophy can lead to more motivation and productivity in the workplace. Employees have the opportunity to make decisions on their own and can actively help the company with their innovational thoughts.

The concept of Corporate Entrepreneurship needs four components to be innovative, successful, and sustainable over time. (Corporate Entrepreneurs, 2022) First, it needs the strategic intention to integrate the aspect of innovational thinking, which is created by the company's CEOs. Moreover, it requires the company's employees to have innovative competencies and the motivation necessary to develop great ideas for new products. Key processes need to support the employee's intrapreneurial thoughts, and the workplace needs to be a learning environment with CEOs, who support the innovational thinking and ideas of the employees by giving them actual chances to develop. They need to "develop a culture of open communication where ideas can flow freely," where failure is tolerated (Kennedy, 2018), and where resources are allocated to the best innovational ideas. (Nugent, 2021) If all these components are satisfied and innovational thinking is successfully integrated, the innovation process can lead to many creative ideas, with which established businesses can create value and further increase revenue growth.

### **Google's Focus on Innovational Thinking**

Google LLC successfully integrates all four components that are necessary for the innovational philosophy and work structure in an already established business. "The business of Google is innovation," and "Innovation is the precondition for [Google's] growth" (Savoia & Copeland, 2011, p. 58) are phrases which emphasize the importance of Corporate Entrepreneurship and the focus on innovational thinking in the case of Google LLC. This already shows the strong strategic intention of the company to act and think innovational.

At Google LLC, innovation is expected from every employee. It doesn't matter whether that person is employed in marketing, sales, or engineering; everybody has the opportunity to communicate and work with other employees to develop their own ideas. (Google Workspace, 2022) Additionally, this is especially helpful because people from all areas of the company can come together and integrate their different perspectives and competencies. These groups create internal start-ups and can spend a specific amount of time on their innovations. Therefore, Google

LLC created the “20% time policy”. (Google Workspace, 2022) In fact, in their 2004 IPO letter, Larry Page and Sergey Brin (2004) noted:

*We encourage our employees, in addition to their regular projects, to spend 20 % of their time working on what they think will most benefit Google. This empowers them to be more creative and innovative. Many of our significant advances have happened in this manner. (Paragraph 17)*

Through this policy, Google encourages their employees to realize their own creative ideas even more. Google allows their employees to be leaders of their own innovations and gives them time for the development and improvement of their own start-ups. The opportunity to make many free choices and be able to integrate their own creativity might strongly increase employee satisfaction. This kind of freedom and the possibility to actively participate in Google’s success, motivates the employees and strongly increases the company’s productivity.

Furthermore, Google LLC creates a working environment in which employees feel comfortable to develop their own ideas. The company tries to find “exactly the amount of management that is needed - and then use a little bit less.” (Lashinsky, 2006, paragraph 5) That’s how Google gives the employees the comfort and freedom they need for their own innovational thoughts. If entrepreneurial innovations from employees do not succeed, there is no punishment for the developers. Google acknowledges failure as part of the innovative process because it allows the employees to learn and to improve their ideas (Savoia and Copeland, 2011). This allows employees to be courageous and come up with the craziest ideas. If there were a punishment for failing, many employees would be afraid of communicating their ideas, and Google LLC would be less innovative and successful as a result. Another advantage related to this is that Google is already an established business that is one of the most valuable companies in the world. Therefore, the company has the ability to invest a significant amount of money into speculative projects and innovative ideas. That is not the case for any competing external technology start-ups that are trying to conquer parts of Google’s market share. These smaller companies would easily risk their existence. Additionally, Google’s sizeable financial resources allow it to recognize successful innovations with monetary rewards. The most significant of these is the “Google Founders’ Award,” which is awarded to outstanding innovations and includes a monetary prize of millions of dollars. (Hafner, 2005) Through this, the CEOs create another motivation for its employees to think innovational and work hard and persevere for the company’s success. As a result, Google

created a learning environment that enables entrepreneurial innovation in all areas of the company and allows employees to feel actively involved and supported.

Moreover, Google supports the innovational thinking of employees with certain key processes. These processes mainly focus on trying out new innovational ideas and getting early feedback before launching a product. One of them is Internal Labs. Labs is a program owned by Google which gives employees the possibility to expose all other Google employees to their idea. (Savoia & Copeland, 2011) The second process with the intention to receive meaningful feedback before launching an invention is the meeting “TGIF,” which is mainly about the newest interests of Google. However, selected internal start-ups can also present their new innovations here and get feedback from founders Page and Brin, who are still the hosts of the meeting. (Google Workspace, 2022) These processes increase the chances of innovations becoming successful after they have been launched. Google LLC manages to include all four components from the figure (p.3) to be as innovative as possible. The employees, the working place, and the key processes are the realization of the strategic intention of thinking innovational.

### **What can be Learned from Google’s Innovational Philosophy?**

The case shows that companies should always continue to innovate and not be satisfied after the first successful business idea. If they did so, business growth and success would eventually come to an end because new and better innovations from smaller start-ups would displace them. Moreover, Google LLC demonstrates that fostering in employees the feeling of actively belonging to the business, showing them that failure is part of the learning process, and providing them the opportunity to make free choices all increase the motivation and courage in the workplace. Therefore, employee effort and productivity are as high as possible, which is the main reason for Google’s continuous success. As a result, Google develops as many creative ideas as possible and therefore has a higher chance to innovate another large business idea. Google LLC embodies the way entrepreneurial innovation significantly contributes to continuous growth and success. As Google is an established business at the top of the largest companies in the world, it demonstrates how Corporate Entrepreneurship is successfully integrated in the company’s philosophy and work structure.

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## Corporate Entrepreneurship

*Khurshid Ahmad Safi*

Business environments are very prone to rapid changes. Ensuring the survival of a business, it must have structural mechanisms in place that help it to be flexible and adaptative. Constant innovation is a key for this process. This innovation in a business is brought about by corporate entrepreneurship.

The term corporate entrepreneurship refers to new business ventures that companies initiate in order to attain higher profits. The concept of corporate entrepreneurship was put forward in the 70s by Peterson and Berger (1971). It gradually became a separate topic of research through the decades. Corporate entrepreneurship is based on the idea of novelty in business in order to retain a stable position for firms in the market. Managers inside the firms have to be visionary and ones who are ready to take risky initiatives. The employees in the corporate entrepreneurial corporations are made to be felt like a shareholder in the ideological holding of the company and made to think like entrepreneurs instead of regular employees.

These businesses can be any new products, services, or processes that a company may launch. The purpose firms adopt corporate entrepreneurship can be many for example:

- Generating more revenue from higher earnings.
- Inculcate an innovative and creative environment inside a firm for employees.
- Remain competitive in the market for new products and services.

Many of the most competitive firms around the world have long had well-developed entrepreneurial element about them. Corporate entrepreneurship can be implemented in a variety of manners. Implementing innovation also requires some innovation. We will now have a look at some of these firms which use corporate entrepreneurship as a tool for survival and growth.

### Google

Google is one of the top corporate firms in the world. It is a software company that aims to provide information to all people with maximum accessibility without any barrier.

- Google employs an entrepreneurial strategy called acquisition. It refers to purchasing other companies, adding it to their own intellectual property. It is one of the most viable options for corporations to add innovation to itself. Google has acquired over 180 companies while spending more than 28B\$ since 1998. Notable acquisitions include Motorola and YouTube among others.
- Other than this, Google allows its employees 20% of their work time to think about new startups. This helps the company ensure a regular influx of startups that might help the companies. Many new innovations in the company are credited to this policy. Notable innovations through this manner include google chrome, Gmail and AdSense.
- Another method for innovation that google employs is research and incubation. Google spends a healthy sum of many billion dollars every year on research and development to generate new ideas for the company.

All these methods make google one of the most technologically advanced corporations in the world.

## Coca Cola

**Coca-Cola Founders program** was launched in November 2014. It is basically a **partnership**, in which Coca-Cola works deeply with selected experienced entrepreneurs who don't even have a startup yet, to **nurture them from the start**. They are **allowed to use Coca-Cola's vast resources**, whether it is their internal teams, their external partners and suppliers or their customers, to **validate their business model**. They also get seed funding through a **convertible loan** which will be converted into equity (less than 20% usually) at the next round of investment.

- Coca cola interviewed and selected 9 teams (originally 8 teams) made from entrepreneurs all around the world. There all come from different places from around the globe like Singapore, Sydney, Buenos Aires, Berlin, London, Bangalore, Tel Aviv, San Francisco and Rio de Janeiro.
- They are given full authority to hire, test and try without falling into the compliance issues of big corporations. They have not been bound until they keep adding value to the company.

- Coca Cola doesn't own or even control the project. The project is headed by the teams completely independently. The teams only have to report to a mentor from within the top managers in the local business areas.

## Apple

Apple is the leading IT company in terms of revenue and second largest in terms of mobile phone production in the world. Achieving such a feat requires great effort, planning and effective strategies.

- In 1984, Steve Jobs introduced the Macintosh. It was the first pc in which the graphical-user interface was controlled by a mouse. The Macintosh was popular because of its ease-of-use. This move by Apple was taken under very difficult circumstances at the time. The success of the company at that time was credited to the entrepreneurial skills of Jobs and the corporate entrepreneurship strategies in place. Steve Jobs had handpicked a group of twenty Apple Computer engineers and worked independently from other Apple employees in order to create the Mac. This group worked under the personal leadership of Steve Jobs, completely autonomously from the rest of the company without any interference. This is an example of how Steve Jobs exercised autonomy and detached from the organizational boundaries to lead a new business creation inside the same Apple. This is a prime example of how to create innovativeness inside an existing company.
- Along the way, Apple has focused on expansion of its product base as can be seen from their evolution and introduction of new products. It started from selling computers to now having music devices, home and personal computers, and a top-of-the-line mobile phone line, the iPhone. Apple bases its product on novelty in design or use that creates an appeal for customers and competition for rivals. These unique designs and ideas have placed Apple among some of the most innovative and competitive companies in the world.

## Microsoft

- Each year, around 100 million start-ups launch their products or services in order to develop a business, according to data gathered by InnMind, a professional network of launch-ups and investors. Microsoft has a mission of enabling every person and organization on the planet to 'achieve more'. For that, it has set up around 100 innovation



centers in the world. These innovation centers, MICs, are equipped with Microsoft software, devices, meeting spaces and professional IT specialists where they all are utilized to spur innovation. Scholars, academic experimenters, software inventors, IT professionals and entrepreneurs all can exchange ideas and resources to produce successful new companies and achieve economic growth.

- Microsoft also launched its new Global Social Entrepreneurship program with an aim to support small businesses that cater to the societal and environmental challenges around the world. Entrepreneurs in 140 countries can apply for the program, which provides grants, technology, education, and guests through Microsoft's resources. To qualify for the program, each company is bound to use a business scale that measures the "impact on an important social or environmental challenge; that is an established product or service that will benefit from access to enterprise guests; and a commitment to the ethical and responsible use of AI". For illustration, Microsoft named a company that builds devices that clean the oceans from microplastics. Incentives are given to these companies where they are able to use Microsoft's cloud services. Microsoft is also making partnerships with associations like MIT Break, a business for social impact services, to retain entrepreneurs.

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## The Success of Airbnb

Hanna Saß

### Corporate Entrepreneurship

*“Most organizations lose their entrepreneurial spirit once they cross the start-up phase. The transition from an entrepreneurial growth company to a ‘well-managed’ business is usually accompanied by a decreasing ability to identify and pursue opportunities. Initiatives and excitement give place to structure and systems. Organizations become blind to opportunities in the process.” (Ramachandran et al., 2006, p. 87)*

Corporate Entrepreneurship addresses this issue and is about the entrepreneurial thinking and acting at the level of established organizations, generating for example new products, processes, technologies or even whole new business models. The general key to success in a competitive and dynamic environment is to be ahead of its competitors and as mentioned in the citation above to keep track of opportunities. To retain the ability of start-ups with entrepreneurial thinking, Corporate Entrepreneurship can help. There are three characteristics of this concept: being innovative, pro-active and risk-taking (Kuratko et al., 2015). Firstly, through innovation a company can make transformation in existing markets or just new approaches. Yildiz (2014) noted that these innovations are more likely to be of a disruptive nature than making little change. It can be the chance to get a huge boost to the revenue and growth of the company when following the principles of a Corporate Entrepreneurship system. Second, being pro-active means to have encouragement to experiment. The company should be actively aware of possible market spaces actively and seeking market leadership positions (Kuratko et al., 2015). Thirdly, I’d like to mention the characteristic risk-taking. Even if the entrepreneur isn’t sure about the outcome he still believes in success and may take risks. Corporate Entrepreneurship aims to achieve that ability. If employees get more free workspace it leads to more creative ideas (Ramachandran et al., 2006). At Google, for example, employees use one day of the week for their own creative projects (Sousa, 2007). Moreover, a company taking new opportunities will help to increase the productivity among their people because different tasks spread motivation. Furthermore, it is advantageous to have employees who behave entrepreneurial, because the company is ahead of its competitors (Thakur, 2021). The concept can be split up into Corporate Venturing and Intrapreneurship. The Corporate Venturing covers more of the external way of Corporate Entrepreneurship by investing into small Start-Ups. Kuratko et al. (2015) said, they do so through venture agreements and the acquisition

of equity stakes, as well as providing management and expertise. The company will be influenced by new ideas and can even be part of a new business area. Intrapreneurship is about the Corporate Entrepreneurship activities especially raised within a business. The goal is a proactive and self-motivated work-environment and employees with a passion to do things differently and a talent for coming up with fresh ideas (Ramachandran et al., 2006). A Start-Up and the concept of Corporate Entrepreneurship share the common mindset. However, the advantages of a Corporate Entrepreneur are the available resources of the company. Usually they don't have to worry about money or capital issues or technologies. On top, the effort and time used for the new approach is less because the business is already prominent and the technical resources are available (Thakur, 2021). Additionally, existing companies already have a group of costumers, internal start-ups can use. If there is no existing business included, it can be a challenge to get attention from customers (Thakur, 2021). Looking at the disadvantages of the concept, it has to be considered that it can take some time to get approval from the head of company and the decision has to be debated with the company, too. Furthermore, rules and procedures in a company or industry can be a hindrance and may lead to problems (Ramachandran et al., 2006). Summing up, Corporate Entrepreneurship compromises the entrepreneurial behaviour in a company to stay innovative and pro-active.

### **Airbnb and Its Way to Success**

A sharing economy can be defined as an economic system in which individuals share underused assets or services, either for free or for a fee. It is a peer-to-peer system, that means business is happening directly through the costumer, usually via the internet (Chua et al., 2019). The sharing economy emerged in the past few years with the development of the internet and technological advancements, e.g. the smartphone (Chua et al., 2019). Applying the sharing economy to Airbnb three key elements are being recognized. First, Airbnb acts as an intermediary with the help of their online platform. They offer the connection between consumers and hosts directly. Second, it is a peer-to-peer system which means every customer with an account can either provide or book accommodations, so both sides are interchangeable. Third, Airbnb is access-based. People don't buy property but the access to a space for some time (Chua et al., 2019). 2008 Airbnb broke the traditional way of hotel industry by innovating the source of supply by a totally new business model (Bashir & Verma, 2016). The initial concept was a bed and breakfast, but Brian Chesky and Joe Gebbia recognized the potential of the market niche and joined with programmer Nathan

Bleckarczyk that broke ground as one of the pioneers in a peer-to-peer app that specializes in travel accommodations (Chua et al., 2019). Chesky (2013) describes his company like this; some Airbnb hosts offer a room in their own home, though the majority of the 300,000 properties listed on the site are self-contained. Both travellers and hosts can subsequently rate each other on Airbnb, helping future customers to decide. Moreover people connect with each other all around the world and it provides travel experience as well. Most of the hosts like to give personal insides of the region's attractions, creating authentic local memories and people can experience places or restaurants they wouldn't even find otherwise. The motivation for deciding to participate in sharing economy like Airbnb housing rather than a hotel includes economic, environmental and social aspects (Chua et al., 2019). Economic aspects are about saving money for expensive hotel rooms on the travellers side and a flexible supplementary income on the hosts side. Although it may slow down economic growth due to a possible decreasing hotel industry demand, it also creates other economic opportunities for small restaurants for example in less touristic regions (Chua et al., 2019). Environmental reasons cover the greater awareness of environmental issues, the desire of less consumption, materialism and waste reduction. At last, social aspects include the feeling of belonging to a community and experiencing interactions with strangers (Chua et al., 2019). Still we have to distinguish between sociodemographic groups, only the European standard is taken into account here (Chua et al., 2019). To feel home away from home. That's the big vision of Airbnb. But why do people leave their private things to strangers? It is the concept of trust, because Airbnb has created a trust-based community marketplace. Trust can be seen as a kind of currency in this sharing economy (Lee & Kim, 2017). The company made it possible to trust in strangers through the mutual ratings about the inventory, the tidiness, the furnishing, the communication and check-in. The new generation, in particular the millennials play a role in shifting the attention of travel opportunities. Millennials are interested in more authentic ways of traveling (Chua et al., 2019). Chua et al. (2019) found out that by the growth of Social Media and the possibility to read ratings and reviews, Millennials can more easily trust new innovations and measure trust with the help of former travellers. Moreover, Airbnb's housing options are unique and higher in the number in comparison to the hotel industry. In times of peak periods or big conventions there is a risk of a lack of hotel rooms and during off season a lot of rooms aren't booked. This is a kind of imbalance Airbnb doesn't have. They even save costs because they don't have operational fees (Chua et al., 2019).

## **The Application of Corporate Entrepreneurship to Airbnb**

Brian Chesky, Joe Gebbia and Nathan Blecharczyk invented Airbnb in 2008 and developed it in a really fast and innovative way. Very quickly they became one of the biggest travel apps and they still continue to keep optimizing their business and reducing customer journey steps. Airbnb by itself was a Start-Up and innovation in the hotel industry. By now they are an established business but nevertheless, they do not close their minds to new opportunities and keep being innovative, primarily in terms of service-innovation. For example, the service provides traveling experience, not only accommodations, which is a whole new product within the basic company. For instance, in the Swiss alps you can already book a ski course or in France you can get a ticket for a wine tasting. Another innovation is presented on the Airbnb website and is called Airbnb luxe, people choosing travel by Airbnb luxe will get selected services. It will be professionally designed accommodations, high quality luxury retreats. On top of that personal travel planners will implement any wish. That's a development of a given product redesigned with entrepreneurial spirit. There is much to suggest Corporate Entrepreneurship is part of the Airbnb business. Accommodation providers like Airbnb operate in a highly competitive business environment and an excellent quality of service is imperative for their success (Lee & Kim, 2017). In order to cope with the situation Airbnb innovates and develops itself since the beginning and keeps track of their entrepreneurial activity with new products. Evidence of that can be seen in the numbers of rooms which are twice as large as the Hilton Worldwide Holdings and Marriott International group (Chua et al., 2019). Co-founder and from my point of view Intrapreneur Brian Chesky has the right outlook to derive greater value from its resources by using them in new ways. A few ideas might not be successful but trying will help to progress the company as well. Brian Chesky inspires vision, offers useful guidelines, and provides resources that can promote the level of performance (IvyPanda, 2020).

## **Reflection**

From my point of view Corporate Entrepreneurship is part of the business model of Airbnb. Today it is an established, successful and active company, however they didn't evolve from an existing company or got ventured from a bigger company. They started all by themselves in a small apartment, without helpful resources and knowledge of an experienced company, with a new idea of a niche in the hotel industry market. Considering these aspects of the case, I would conclude

Airbnb isn't a perfect example of a Corporate Entrepreneurship associated company. However, nowadays Airbnb is an established company with experience. They do have an entrepreneurial spirit they have never lost in these years. Intrapreneurs like Brian Chesky who brings up a lot of innovative ideas is extremely important for the success. Airbnb itself launched a lot of new, additional products on their website, for example the booking of trips. They have always tried to catch new customers by increasing their offers and broaden the company's horizon. They started at a time of technological evolution as a technological Start-Up in 2008 and faced the digital revolution. That way they have grown to a business leader in the accommodation industry today.

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# **The Concept of Corporate Entrepreneurship Applied to the Case of the Dräger Garage**

*Anneke Mara Schwind*

## **Introducing the Concept**

### *Entrepreneur in the Company*

Corporate entrepreneurship, also abbreviated as CE, is a process that is used to develop new businesses, products, services, or processes inside of an already existing mid-sized to large organization to generate new revenue growth and create value through entrepreneurial thought and action. It is a concept of creating a framework for supporting employees within a company to think and behave like entrepreneurs, also referred to as organizational entrepreneurship or corporate venturing, as well as many other designations (see Prof. Dr Blöcher, 2018, for more details). Characteristics of corporate entrepreneurship programs are that they should produce revolutionary and resounding ideas, rather than smaller, gradual changes and that the innovations are preferably led by employees, instead of being implemented by the firm management (Kennedy, 2018). The latter should only perform a supporting function, whereby it should be noted that the concept assumes that the company in question does not create corporate entrepreneurs but finds them. This means that Companies are usually already provided with employees who share important entrepreneurial characteristics such as courage, curiosity and open-minded thinking, resilience, and the fact that they are not driven by financial motives but rather by pursuing something that they feel passionate about. The task of the companies is to identify, support and encourage these people so that employers and employees can work cooperatively to develop new products, services, or processes to not only improve the company itself but also the lives of the customers. Benefits of CE, besides the new businesses, products, services, and processes, are for example growth through a consistent stream of innovations, as well as more flexibility and competitiveness. The concept also helps with recruitment of new, and retention of established employees because the effect of allowing employees to pursue their ideas for the business is a higher level of job satisfaction. Moreover, if companies are known for their encouragement of corporate entrepreneurship, they will, in turn, attract other skilled and entrepreneurial-minded individuals, creating a positive cycle. As a result, productivity and employee morale increase because

employees are more engaged when they feel that their contributions are valued by the company (see Kennedy, 2018, for more detail). Nevertheless, it should be noted that integrating the concept of CE into a company is usually very time-consuming and seeing the actual benefits takes a lot of time too, all while the process is expensive, for it is necessary to recruit professionals to support employees within the entrepreneurial processes.

The administrative approach of CE is first and foremost support, both mentally and with the company's resources. By feeling supported and valued by their employers, entrepreneurial employees can and will bring up their best ideas, leading to the greatest possible benefit for the company. Another important method is open communication so that ideas can flow freely, and a safe and free space is created. This free space should ideally be combined with a lowered wall of bureaucracy to allow the emergence of new ideas that fit the specific business and not just the company in general. Even greater support is provided if companies can avoid any possible fear of failure for entrepreneurs. By showing the employees that risk is tolerated, and failure can be seen as an opportunity to learn and do better in the future, they can work more creative because they must not fear the negative consequences of failed ideas (Kennedy, 2018).

### **Case Description: Dräger Garage**

Located on the Dräger factory premises in Lübeck, right next to the main administration building, is the Dräger Garage- the innovation management of Dräger. The Drägerwerk AG & Co. KGaA is a company from Lübeck that develops, produces, and distributes equipment in the fields of safety and medical technology and is also listed on the stock exchange. In 2016 the Dräger Garage was founded to generate future-oriented innovation management in the face of technology; the slogan: *Free space. People. Working methods.* Free space for the employees, people as the centre of the whole and as the origin of new ideas and working methods to clarify that it is not about what is done, but how it is done. Since its foundation, the concept of the Garage has changed, for its team originally started by using the format of the Adobe Kickbox for entrepreneurial motivated employees in all their locations worldwide, hosting pitching events and workshops and later on supporting and integrating promising projects into the company. Yet, in 2021 the team of the Garage decided to reinvent their concept as they realised that the need for smaller, customised programmes grew.

Now, the Dräger Garage applies a new method that enables employees a moderated expedition into the business jungle as a guide for dealing with topics and business areas that are complex and uncertain and may appear chaotic. This means that Dräger provides a team of experts for guidance that also regularly trains itself and brings a lot of work experience with it. With the help of cooperation and modern technology, they offer workshops at regular intervals and support employees step by step from a new idea to an actual business model to receive products, processes, or cultural elements as a result. Nowadays, the focus of the Garage is to ensure team development and guidance.

### **The Concept of Corporate Entrepreneurship at the Dräger Garage**

In concrete terms, the team established a bit-by-bit training and support programme for entrepreneurial employees to get through the different stages of developing and prospering a business model. They regard the so-called business jungle as an actual jungle which they call *the jungle of uncertainty*, and which must be crossed to bring an idea to life as a business model. At the beginning of their pretended expedition, the participants go through a checklist of five questions, to map out their goal in the spirit of Design Thinking and Lean Startup<sup>3</sup>: What problem occupies the customers and distracts them from the core business? If a problem gets solved: What are the benefits for the customer and the company? Is Dräger able to provide the customer with an innovative solution? Is this solution scalable and standardisable? If so, are the participants motivated to put this into practice? If the answer to all the questions is ‘yes’, the team initiates the expedition.

The first station of the journey is the so-called “campfire”. At this point, the fundamental questions are asked and brainstormed: Who is needed, what skills are already there and what abilities are still missing? After collecting the answers to these questions, the participants can move on to the next station: the “Big Picture Zone”. In this part of the expedition, the participants try to consider their topic from different perspectives. They ponder who or what might be dangerous to them and their solution approach, who could help them and what did not work out at previous attempts to

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<sup>3</sup> Design thinking is a client-centred and iterative method for solving complex problems by weighing economic viability, feasibility, and desirability (Diehl, 2021). Lean Startup is the methodology of seeing every start-up as an experiment to answer the question of whether a product should be built instead of how to build it, to develop a sustainable business around a set of products and services (Ries, n.d.).

solve the basic problem. Following this procedure is the “Human Connect Zone”, or “Treehouse”, where the focus is team development and group cohesion. First, one should reflect one’s strengths and capabilities to fathom if every group member is ready for the upcoming challenges. Then, the team collects their strengths and preferences to think about how they can profit from their differences and diversity - this station is all about perceiving and reflecting. After strengthening and compiling a better group feeling, the expedition members reach the “Ideation Zone” called “Ape Rock”. Here, ideas are being spun. No matter how big, crazy, or ambitious they might seem, they are welcome at this point, as the goal is to create so-called moon shots- ambitious, pioneering project ideas. During this phase, no limitations of thinking are needed, the convertibility of ideas is not part of this station and follows at a later point of the expedition. Subsequently to this brainstorm is the “Business and Pitch Zone” concretion. With the help of a business model canvas, the group needs to specify their business model, calculate their riskiest assumptions, and develop a method to present their ideas to outsiders. This presentation leads to the next station: the “Customer Connect Zone”, where the product gets validated by the customer. The idea behind this station is to deduce if the customer’s core problem was understood in its depth and therefore the solution adapts to the problem. After the business idea got approved by the customer, it is time to pitch it for the actual business world, trying to implement the business model on the market. At this point, the expedition through the “jungle of uncertainty” is over as the final product, process or service is fully developed and the entrepreneurial employees should have grown both personally and professionally. Despite that, the Dräger Garage offers an optional last station: the “Fail Zone”. It is possible that even though the product got the consent of the customer and was well thought out, it failed on the market itself. Possible explanations for this case are a wrongly calculated consumer market or an unpredictable price drop due to competing products. In this case, the “Fail Zone” is a place to reflect and learn from one’s own mistakes to improve in the future.

## Reflections

Overall, it is remarkable how great of an example the Dräger Garage is for the applicability of the concept of Corporate Entrepreneurship, for it has been established in the company for several years now and shows typical CE features. One can therefore learn from the case that the concept itself is applicable and useful for the company’s competitiveness on the market, as well as a possibility for entrepreneurial motivated employees to get further training and business experience without

the need to try outside the workplace. Nonetheless, Corporate Entrepreneurship is a long-term concept that takes a lot of time, effort, and financial resources to fully develop and is consequently only profitable for mid-sized to large companies. Yet, if a company is interested in creating competitive, productive and, in several ways, sustainable business models, the Dräger Garage proved CE to be a successful concept.

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## **International Business Machines Corporation (IBM): An Example that Corporate Entrepreneurship is an Effective Theory**

*Tugui Iasmina*

### **Investigation of the Corporate Entrepreneurship Concept**

Entrepreneurship is a core part of every business organization. It is hard to give just one proper definition for the notion of entrepreneurship. Even if it seems that the answer is obvious, academics give various determinations to what this word means. Its elasticity allows using it in different contexts, giving it different meanings (Eisenmann, 2013). Some will define it as a process through which a company develops itself, others see it as a way of creating abilities and attitudes, however, the ultimate goal is economic progress. Thus, every business should first understand what entrepreneurship means, analyze its types, origins, and learn how to manage it accordingly for the pursuit of its mission (Diandra & Azmy, 2020).

The research of entrepreneurship is a crucial part of business analysis in general (Maes, 2004). For a long time, the above-mentioned term has been attributed to name the creation of a company from the beginning (Rothwell & Zegveld, 1982), only later, scholars developed the emphasis on entrepreneurship within the existing firms, with the target to modernize them and to replace old practices and tools with new ones. Narrow-minded management was substituted by up-to-date initiatives. Innovation was necessary in order to abolish the traditional no longer effective regulations (Miles & Covin, 2002). This phenomenon was deeply analyzed, but its origins are even now hard to understand because it hasn't had a common definition, but rather was named and understood differently (Stopford & Baden-Fuller, 1994). Titles as entrepreneurship, intrapreneurship, corporate entrepreneurship, and entrepreneurial orientation, were and are often used to describe a common idea (Zahra et al., 1999). According to (Zahra, 1991) corporate entrepreneurship is about the actions of forming new entrepreneurial activities within established companies with the target to maximize profitability, enhance the business's position on the market, or strategically improve the existing firm.

Notwithstanding the inexactness of an underlying definition for corporate entrepreneurship, writings that deal with this term embrace a common idea of differentiation between the accustomed entrepreneurship and the corporate one (Maes, 2004). The first one is when a person or a group of



people create a new business independently, without relating to an existing company (Sharma & Chrisman, 1999). However, the second one implies entrepreneurial operations in connection with one or more firms that are already established on the market (Burgelman, 1983).

Today, we live in a world full of uncertainty, and for businesses the competitive surroundings make it even harder to withstand the rivals that improve their products and services continuously, so what remains to do for a firm that wants to be successful is to keep up with the trends and innovation and give up on old-fashioned practices. Actually, this changing environment has lots of opportunities to offer, only it depends on the company's decisions and strategies if they will become leaders on the market or will barely survive. (Kollmann & Stöckmann, 2008)

### **Application of Corporate Entrepreneurship to IBM**

One example of a firm that successfully applied the principles of corporate entrepreneurship during its long existence is International Business Machines Corporation (IBM) - an American multinational information technology company that was founded more than a century ago and exists even today. For many decades, it influenced people's lives, established the foundation of the technology we have today. Nevertheless, IBM encountered crisis and severe issues and had many falls and rises, but was still considered a reliable and successful company. It continued to innovate its products, reconfigure itself, gain profit and thrive. The latest generations may not fully understand its role and power, but just a few of its important achievements are: IBM employees created the software that allowed people to go to the moon and back, the personal computer they introduced in 1981 encouraged the world to adopt these devices more often because of their high performances, they turned into reality the idea of artificial intelligence and even now continue to improve it (Cortada, 2019).

IBM acquired about 85% of the domestic market by the middle of the fifties and kept this number for three decades further (Flamm, 1988). According to (Usselman, 1993) this was possible because after the ending of World War 2 the demand for the latest technology products increased, and especially American administration was interested in having the best and up-to-date equipment to have more power during the Cold War. At its beginnings, IBM was a moderate-sized firm that constructed electromechanical accounting technology run by Thomas Watson. When they saw the opportunity of a new large emerging market, they didn't miss it and made the revolutionary transition to electronic computers. Thanks to the company's remarkable reputation government

trusted IBM and continue to do business with them. They had many projects together and developed research that helped improve and develop modern machines technologies. An important strategy was that they also continued to sell for the commercial market. They had the advantage of a well-known name because of their connections with the government and leading-edge and qualitative products, this was exactly what the customers were looking for. They have an important role in the tech revolution and the development of the electronic computer. Thanks to elasticity in production, permanent research of the market, consideration of both consumers' needs, and technology development, they were able to be in a front position in this area for many decades. They were not afraid to adapt to change, instead, they were always looking for opportunities and innovating their business. One revolutionary change that took place in the sixties, was the manufacturing of a unique line of computers (System/360) completely designed by IBM, that run the same programs and could substitute the previous IBM technologies. The processing of data developed from small machines to big ones without the need to rewrite the basic programs. For the domain of IT, the release of this product was considered to be the second most meaningful one before the personal computer.

The National Institute Economic Review (Freeman et al., 1965) tried to offer a proper answer to the question “Why had IBM succeeded?”. The organizational abilities and a powerful marketplace that was interested in qualitative high-tech products are mentioned as the main reasons for such outstanding fast growth and maintenance. Also, the company was praised for its innovation resistant practice, worldwide reputation in sales, instructed professional employees, and “trained costumers”. (Darringer et al., 2000) describes IBM’s advantage on the market - EDA (electronic design automation). They invested to improve the most up-to-date and efficient technology. In the last decades of the 20th century, IBM was called an “incubator for innovation in EDA”, this shows that the firm didn’t stop, but continued to develop products and surprise their customers with more efficient alternatives.

## **Reflections on IBM’s Implementation of Corporate Entrepreneurship**

IBM has the appropriate pattern to follow for applying the characteristics of corporate entrepreneurship in a company. First of all, the presence of innovation at every stage of development has targeted its thrive and kept maintaining the competitive superiority on the market. Secondly, the designing of a great range of products in order to meet the encountered opportunities

for different markets and various purposes helped extend its area of competence. Moreover, the creation of new businesses within the existing corporation through both novelty and alliances defines the strategy they followed. Besides, the progressive process of renewal was enforced by the creation of novel fortune by joining together the existent resources. IBM had visibility, power, ambition, and a strong desire to succeed. It will always remain an iconic example to follow when it comes to business and how to do it right.

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## **Endless Play, Endless Opportunities: How the Right Coupling Brought LEGO to the Top**

*Johanna Marie Voigt*

### **Corporates as entrepreneurs**

In today's fast living and ever-changing world, the business world expects innovation and fascination, bringing forward opportunities and challenges for new businesses as well as for already existing. There is constant pressure of competition in markets and corporates need to stay ahead of things to successfully compete in their markets. This does not only include newness and variation in products but an according strategy also for internal processes of a company.

The management style of Corporate Entrepreneurship is a way of keeping the entrepreneurial thoughts of a newly founded organization and apply them to already established ones. Originating from the thought of successfully incorporating a firm, Corporate Entrepreneurship is aiming to maintain growth and development (Burgelman, R. A., 1983).

Firms need to achieve a balance of diversity and order in their strategic activities, with entrepreneurial activities acquiring diversity. By adjusting organizational structures to an autonomous strategic behavior, the middle management plays a big role to accomplish entrepreneurial activities while the top management emphasizes on providing a strategic concept and thereby provide the order in form of a framework (Burgelman, R. A., 1983).

Corporate Entrepreneurship relies on the interaction between the top management and the operational level, diversification of managerial and internal processes as well as a strategic concept that provides the ability to set new directions as well as flexible reaction to environmental changes and influences. Restructuring the internal processes will allow for the required diversification (Burgelman, R. A., 1983). Innovation and risk-taking as well as proactivity in strategic decisions are three important dimensions of Corporate Entrepreneurship as they allow to focus on market and customer needs and flexible reactions to changes (Wirtschaftslexikon Gabler, 2018).

## **From Wooden Toys to a Real-life LEGO® House in Billund**

The story of one of the most successful toy companies has started back in 1932, when the carpenter Ole Kirk Kristiansen started producing high quality wooden toys. Since 1936 his toys are wearing the name Lego, 1949 the first version of the famous LEGO® brick was launched, around ten years later the coupling system of today's LEGO® brick was patented. This was the beginning of LEGO®s rise, continuing innovations with the first LEGOLAND® in 1968, launching the first LEGO® Technic products in 1977 and the creation of the LEGO® minifigures in 1978 (LEGO®, 2021).

LEGO® was growing and introducing new lines and themes and while some of them landed great successes others were rather successless due to a changing toy market. Even though LEGO® kept innovating, it could not remain competitive with the rise of more complex and less expensive toys. The few success stories covered LEGO®s setback but the mishits of over-innovating costed them more than their successes covered and with the inability to satisfy the consumers' needs LEGO® also had a setback in customer loyalty (Knowledge@Wharton, 2013). Not being able to keep up with the new toy market, in 2004 LEGO® faced a low of revenue that year (Statista, 2022) and was close to bankruptcy.

The appointment of the new CEO, Jørgen Vig Knudstorp, in 2004 brought the focus back to the core business and LEGO® back onto the roads of success. He was the first CEO from outside the Kirk Kristiansen family and concentrated on nurturing the existing community and changing the organization's structure. Instead of keeping up a bureaucratic and strictly hierarchical order he introduced monthly meetings with a committee of 25 vice presidents to discuss current plans and focusses. This way a larger group of participants got involved in executive topics and the executive level got more involved in the different departments. This way an almost circular structure was established that under the right management speeded up processes (Boston Consulting Group, 2017).

With Knudstorp's successful turnaround, in the last years LEGO® became the toy company with the highest Brand Value (Brand Finance, 2022) and has gained a strong stand in the market. With its diverse lines of products, from the classic building blocks to nearly true to original cars (LEGO® Technic), an approach to digital play connecting the LEGO® Super Mario app with the

bricks, to entering the arts and crafts market (LEGO® Arts and Dots), it addresses a variety of target groups and has a huge and loyal community standing behind.

### **Through Innovation, Proactivity and Risk Taking**

Already in the early stages of the company LEGO® has been innovative and extending into other markets. The LEGOLAND® has taken LEGO® out of the toy sector into a real-life experience, inventions like LEGO® Technic or LEGO® MINDSTORM® were taking LEGO® from just building bricks to more complex toys, an approach to adjust to the changing market and address further target groups. By internal corporate venturing LEGO® extended their business line by line, but started losing focus on their core business, the cornerstone of the LEGO® company. The cooperative corporate venturing in form of collaborations with for example Harry Potter or Star Wars on the other hand, were more successful. With their ongoing innovations they entered several markets and became big on corporate ventures.

During the near bankruptcy, in 2005 LEGO® sold the LEGOLAND® Parks to the Merlin Entertainments Group and thereby became one of the major shareholders (LEGO® 2021a). Nowadays, the Merlin Entertainment Group owns several huge theme parks and attractions like Sealife, the Dungeons or Madame Tussauds (Merlin Entertainments, 2022). Furthermore, LEGO® established the LEGO Foundation, to encourage play as an educational device and rise projects for educational equality in the sense of the 4<sup>th</sup> SDG (The LEGO Foundation, 2022).

To be successful LEGO® was proactive, innovated and took risk, but this is only what was recognizable on the outside. LEGO® also revolutionized itself on the inside. With the change of CEO in 2004, a flatter management style was introduced to the internal structures. Under 2017s new CEO Niels B. Christansen the Leadership Playground was established as a bottom-up approach to organizational structure.

The Leadership Playground is a save space for innovation and creation. It is meant to empower employees to be creative and curious, to inspire and to dream. With the playground LEGO® wants to give freedom to employees from all departments while setting the right guidance and thereby give up some control. It is about taking a step out of the comfort zone and to not hold back but promote and find potentials (The LEGO Group, 2019).



This is just according to the idea of autonomous strategic behavior and a strategic concept; the playground is the save space for giving leadership from the top management to the operational level and giving a conceptual framework.

Giving the opportunity to great entrepreneurial activities due to a diversity of employees working together, inspiring each other, employees become entrepreneurial resources bringing in new ideas and new ways of working and creating, while knowing and being the audience. On the other hand, one must keep in mind that over-innovating and losing focus of the core business has nearly once destroyed the company and costed consumer loyalty. It is the top managements task here to find the balance between diversity and order, to give up but not lose control, in order to keep up the brand's image and loyalty. The Leadership Playground might result in an overflow of ideas and there is a risk of missing out on opportunities as they are not heard as well as a risk of trying too much at once and failing again.

Currently LEGO®'s stand in the market is strong, the brand is known worldwide and has a strong image and a loyal community of multiple generations. This gives the opportunity that further corporate ventures, whether internal or cooperative, are more likely to be accepted and thereby successful without diminishing the brand's image. Regardless of the current stand LEGO® must learn from its past mistakes and not lose its focus again. One of the most prominent challenges of today's business will be to compete with digitalization and the children's changing requirements on play, while maintaining the core business.

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## Microsoft: Entrepreneurial Paragon?

*Sarah Werner*

### Corporate Entrepreneurship by Robert Burgelman

The idea of corporate entrepreneurship has just recently been re-evaluated, with people like Robert Burgelman, analysing the theory and the implementation in the companies. Generally, there are four types of corporate entrepreneurship, the first one being “corporate venturing”. Corporate venturing represents the theory of one company having a specific skill set, which can be used to create a new and innovative company within the original company or selling their expertise to another company. Thus, creating a valuable new part, which usually is the result of managers, taking a calculated risk with high revenue (NEAL THORNBERRY, 27.August.2001). Secondly, the theory of “intrapreneuring” establishes the basic concept, that managers take actions as entrepreneurs and create an atmosphere to promote entrepreneurial behaviour, thereof more innovative ideas can occur (NEAL THORNBERRY, 27.August.2001). Thirdly, the “organizational transformation” validates the notion for an organization to change their structure. As a result, processes in the organization run faster and more smoothly, which consequently helps the organization to be more competitive and having a stable economic success (NEAL THORNBERRY, 27.August.2001). Fourthly, “Industry Rule-Bending” includes a company to change the standards of a product to the better, while keeping the prices low. Resulting in competing companies having to drop their prices and keeping the quality high, otherwise those companies’ loose customers and are eventually not able to compete on the market anymore (NEAL THORNBERRY, 27.August.2001). The theories mentioned above cannot be actively executed, but rather have to be integrated into the daily life of each employee in a company (Robert A. Burgelman, 1983).

### Case Study

In 1975 Bill Gates and Paul G. Allen founded Microsoft, the name derives from the word’s microcomputer and software. Only 5 years later the company IBM (International Business Machines Corporation) asked Microsoft to write the software for their computer IBM PC, for which Microsoft bought an operating system, modified the programming and renamed it MS-DOS (Microsoft-Disc-Operating-System). This operating system was released in 1981, by 1990 it had

sold over 100 million copies. Since the revenue was high, Microsoft created a new system, Windows, which had a graphical interface. In the following years Microsoft grew in its value and by 1993 almost 90 % of all computers used the Windows interface. This entrepreneurial development helped the company to stay as relevant as it has for over 57 years. However, the question arises as to how Microsoft, a large bureaucratic company, has stayed entrepreneurial thus far (Gregg Pascal Zachary, 2020).

### **Microsoft—“Corporate entrepreneurship”**

To answer the previous question, how Microsoft has stayed entrepreneurial, as a large bureaucratic company, I will have to look for connections between the theories by Robert Burgelman and Microsoft. Starting at the beginning, once Microsoft was founded, their main ability was to write and rewrite programs. Thus, using the theory of “industry rule-bending “, whereupon Bill Gates and Paul G. Allen reprogrammed the mainframe computer programming language “BASIC” to use on their own computers (Gregg Pascal Zachary, 2020). Moreover, in the following years, Microsoft used their programming expertise to code the essential operating system for the computers of the company IBM. For this task, an already existing operating system was purchased, reprogrammed and named MS-DOS. This process is often found in the theory of corporate venturing, whereat one company sells their expertise in a specific field, creating new possibilities for both companies (Gregg Pascal Zachary, 2020; NEAL THORNBERRY, 27.August.2001). After the release of MS-DOS, which has released 100 million copies by 1990, the new operating system Windows was released. Due to this new system with a graphical user interface, Microsoft reinvented the operating system of the computer, but it wasn’t until 1993 that Windows 3.0 grew more popular than ever. Through this phase of intrapreneuring, Microsoft has gained millions of dollars and took the lead in the software developing scene (Gregg Pascal Zachary, 2020). On account of the tremendous success with the new operating systems, Microsoft also followed other parts of the theory of intrapreneurship. Thus, creating a space where the directions of each project was limited, however the number of entrepreneurial decisions was maximized and the success was rapidly monitored (Robert A. Burgelman, 1983). As a result, projects like Encarta (1993-2009), MSNBC (1995-2012) or Windows NT, a program which linked various computers thus creating a big network, were launched (Gregg Pascal Zachary, 2020). While intrapreneuring pushed Microsoft to change the existing programs, the rapidly changing environment enabled Microsoft

to improve and explore new fields of interests. Like Robert A. Burgelman has established in the paper “corporate entrepreneurship and Strategic Management: Insights from a Process Study” “the company follows the evolutionary theory of Homeorhesis, whereas the environment changes lead to a company/ situation which consequently improves (Robert A. Burgelman, 1983). For example, did the organization Netscape introduce the navigator to navigate through the World Wide Web in 1996, in the same year Microsoft introduced the Internet Explorer free of charge, which is “industry-rule-bending” at its finest. Thereupon Netscape could no longer keep up with the competition, however this behavior led to an investigation by the U.S. department of justice, since the Sherman Antitrust Act established, that it is illegal to create a monopoly. A year before the U.S. department has already prohibited the purchase of Intuit Inc., which was a leading force in the area of financial software for PCs. All in all, the allegations and court rulings resulted in the EU fining Microsoft in 2004 and 2008, for their attempts to become a monopoly (Gregg Pascal Zachary, 2020). Despite all the occurrences, this did not change the ongoing growth process of Microsoft. Additionally, in 2000 Bill Gates resigned as CEO, this could have been the end of Microsoft, but it wasn’t (Forbes, 13.January.2000). Like Robert Burgelman ascertained, although the top management has to accept entrepreneurial thinking, the most important part in the equation is the middle management. While most companies try to minimize the “Errors”, it equally minimizes the new and entrepreneurial paths a company could take. Once middle managers are allowed to question the current concept of the organisation, the company moves away from ideology, that mistakes are not worth making. Which is also the reason, why many underestimate the actual value of corporate entrepreneurship, since the value is not measured in the amount of money that has been lost, but rather with the new knowledge the company has gained. Thus, making the middle managers one of the most essential parts in the theory of corporate entrepreneurship (Robert A. Burgelman, 1983). This was seen, in 2001 when Microsoft kept on thriving, even though Bill Gates resigned in 2000 and the new CEO Steve Ballmer has been working for only 1 year. After the new CEO took his position Microsoft kept on growing and expanding its reach. For instance, releasing the Xbox live in 2002, the Xbox 360 in 2005, which shows further entrepreneurial behaviour (Gregg Pascal Zachary, 2020). After 14 years, Steve Ballmer resigned from the position of CEO and Satya Nadella took over as the CEO. Although Microsoft has created the Xbox during those 14 years were a difficult adjustment time for Microsoft, since companies like Apple or Google took over the market, with their new highly

developed technology (Felix Richter, 2020). The research has shown that Microsoft has increased their market strength after the year 2014. So, I looked for the new programs that were developed in this time period. According to Felix Richter, the projects Azur and Microsoft 365 increased their profits the most. While searching for other success stories, I also found a very interesting project created in 2014, which incorporates the theory of corporate venturing. This takes the search engine Bing, which was rebranded in 2009 and tries to reinvent it in order to compete with Google. In the process of reinventing Bing a small Start-up formed in midst of the bureaucratic structure of Microsoft. This can be related to the theory of Robert Burgelman called corporate venturing, which includes the process in which a company forms a new company within an already existing company (Robert A. Burgelman, 1983). This project consists of a group of tens of thousands of employees, who started to develop a new and improved version of Bing. One of the most interesting ideas, connected to this program is, that it resembles a Start-up, in which every employee can present their ideas to management (Christina Farr, 2014). Therefore, connecting the type of corporate venturing, creating a company within a company and intrapreneuring, which enables every employee and manager to become an entrepreneur (Robert A. Burgelman, 1983). Even if this was a new and innovative approach, I have to agree with the author from university of Pennsylvania, who assumed shortly after Bing was created in 2009, that it is only a security for the net worth of Microsoft (Wharton, 2009).

## Conclusion

In conclusion the theory of Robert Burgelman can be connected to the different aspects of Microsoft in the last 57 years. While I believe it is unlikely, that Microsoft actively perused to incorporate the different types of the theory, I think it is an exquisite example for the theory of corporate entrepreneurship by Robert Burgelman.

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# How Corporate Entrepreneurship Secures L'Oréal's Position as the Beauty Market Leader

*Friederike Willner*

## The Concept of Corporate Entrepreneurship

With an ever changing, rapidly growing world and an increase in information and data availability comes the need for adaptation of business and management strategies to keep up with innovative technology and changing markets. Corporate entrepreneurship denotes the evolutionary approach coined by Robert Burgelman that enables established businesses to remain entrepreneurial and innovative and thus assertive to increasing competition (Kuratko et al., 2004). Characterized by three dimensions, innovation, proactivity and risk-taking (Engelen et al., 2015), the theory conceptualizes the idea of keeping the mindset of a start-up as an established company to ensure innovation and “sustainable competitive advantages as the foundation for profitable growth” (Kuratko et al., 2004, p. 9). Through both external and internal innovations regarding technological, product-market and administrative aspects, competitiveness can be increased and leading positions in the respective market secured (Engelen et al., 2015). To develop innovations, changes in the environment must be recognized and responded to fast, implementing the idea of proactivity, the second dimension of corporate entrepreneurship. That way, a pioneer status can be reached, and competition can be withstood more easily (Engelen et al., 2015). Although integrating new strategies often results in high costs and time-consuming labour, investing resources in uncertain innovations forms part of the third dimension, risk-taking, and is therefore encouraged by the concept of corporate entrepreneurship (Kuratko et al., 2004). Despite time and cost expenditures, corporate entrepreneurship provides businesses with a considerable amount of flexibility and agility due to unique combinations of strategies used to respond to unpredictable changes and events (Engelen et al., 2015). Innovative products and concepts are however not the only way to accelerate business growth since actively incorporating employees in the company, encouraging continuous skill and knowledge development, leads to increased engagement and initiative and thus productivity (Kuratko et al., 2004). A relaxed working environment and relationships between managers and employees based on trust are therefore indispensable

prerequisites for successfully applying the concept of corporate entrepreneurship (Kuratko et al., 2004).

## **L'Oréal Groupe**

Founded 1909 by Eugène Schueller, a young French chemist, L'Oréal came to be known as one of the most popular and most successful beauty brands (L'Oréal, n.d.). Ever since launching the very first product, one of the first hair dyes ever, the company has developed innovative products covering the areas of makeup, skincare, and hair with the aim of creating tailor-made beauty products “while understanding and respecting all the nuances in cultures, needs and traditions” (L'Oréal, n.d., About L'Oréal section). By investing in research and science-based products L'Oréal experienced significant growth since its foundation over 110 years ago, now being the worldwide market leader in the beauty industry with over 88000 employees and 36 brands (L'Oréal, n.d.). Through being “strategically concentrated yet operationally decentralized” (L'Oréal, n.d., Strategy & Model section) L'Oréal achieved global presence in 150 countries and is able to produce at a local level following the idea of “universalization”, a concept of globalization based on inclusion and diversity (L'Oréal, n.d.). The company is organized around four divisions, “Consumer Products”, “L'Oréal Luxe”, “Professional Products” and “Active Cosmetics”, that are supported by the corporate functions “Administration & Finance”, “Digital”, “HR” and “Communications and Corporate Responsibility” (L'Oréal, n.d.). Research and assessment centers as well as strategic markets around the world create a worldwide network of “Research & Innovation” that fits the entrepreneurial spirit and the motto “Savoir saisir ce qui commence” (L'Oréal, n.d., L'Oréal History section), seize new opportunities, of L'Oréal.

## **Corporate Entrepreneurship in the L'Oréal Business Culture**

Although having been founded over a century ago, by focusing on innovation and other aspects of corporate entrepreneurship L'Oréal is still known as one of the most successful companies in the beauty industry.

Driven by both external factors like the rapid growth of the market or increasing competition as well as internal aspects such as economic growth, collaborations with innovative businesses and improving skill and knowledge development L'Oréal's business strategy centers mostly around innovation. Not only does the company invest millions of euros every year in technology and

science, for instance 985 million in 2019, but it also founded 21 “Research & Innovation” centers with more than 4000 employees worldwide to achieve scientific progress to create innovative products that respect the different needs and cultures of the consumers (L’Oréal, n.d.). Another way L’Oréal incorporates innovation is by cooperating with innovative businesses and start-ups. In 2018 L’Oréal introduced its secondment program providing employees with the possibility to experience entrepreneurship by working on an innovative program of their choice for half a year (Beauty Tomorrow, 2019). During these fully paid six months the employees receive support and mentoring from the start-up incubator “Founders Factory”, which not only helps the employees to develop and consolidate practical and creative skills, but also reinforces the entrepreneurial spirit and an innovative and agile mindset. Similarly, L’Oréal’s innovation competition “Brandstorm” (Brandstorm, n. d.), which asks competitors to “come up with an unconventional solution” (Brandstorm, n. d., Your Challenge section) for current challenges in the beauty industry, represents another way of encouraging employees’ initiative and engagement. Through these programs L’Oréal provokes life-long learning and supports innovative ideas. With the help of the “BOLD venturing fund” (L’Oréal Bold Ventures, n. d.), founded by L’Oréal to invest in ingenious and future-orientated businesses, the company is able to follow its concept of “Open Innovation”, having supported and partnered with over 2500 international start-ups in the past (L’Oréal, n.d.). That way the beauty brand implements a start-up mentality in its business model and thus improves its competitiveness in a rapidly changing industry. The success of this dimension of corporate entrepreneurship is visible in previously launched, innovative products as well as L’Oréal’s position as the beauty market leader (L’Oréal, n.d.).

To remain in the market L’Oréal needs to think and act future orientated. Focusing on proactivity, the second dimension of corporate entrepreneurship, enables L’Oréal to recognize and respond to changes and developments as quickly as possible, ensuring pioneer advantages. By significantly reducing waste, water consumption and CO<sub>2</sub> emission since 2005 L’Oréal focuses on sustainability, thereby investing in the future (L’Oréal Finance, 2020). On top of that, the company has “chosen to bet on Green Chemistry for 20 years now and to invest in science to invent the cosmetics of tomorrow” (L’Oréal, n.d., Green Chemistry section, para. 1), taking its proactive mindset even further and making it one of the first businesses to research innovative and sustainable formulations for products.

Since these expenses come with a notable amount of uncertainty, making the success of investments difficult to predict, the willingness to accept a certain level of risk, as described by the third dimension of corporate entrepreneurship, is required. Being allowed to make mistakes therefore is an essential prerequisite for corporate entrepreneurship to work “because there is no innovation without daring, without taking initiatives” (L’Oréal, n.d., Values & Mindset section, para. 3). L’Oréal also promotes a “test and learn” approach encouraging employees to take initiative and develop and test new ideas without fear of failure and instead treating mistakes as a way of learning (L’Oréal, n.d.).

L’Oréal is driven by a passion for creating diverse and inclusive products as well as the objective to remain the market leader and ensure business growth. By both expanding through founding and cooperating with new brands and adapting products to cultural needs the company focuses on the market as well as customers and thereby acts in the spirit of corporate entrepreneurship.

### **Effectiveness and Barriers of Corporate Entrepreneurship**

L’Oréal has made it clear that innovation, among other aspects like diversity, is one of the company’s main objectives. Innovation as a driving force as well as methods for proactivity and risk-taking show how the beauty brand applies the concept of corporate entrepreneurship while its position as the market leader reflects the effectiveness of said management strategy. Yet incorporating innovative concepts in established companies often challenges strict and traditional structures within the business culture (Engelen et al., 2015) and therefore requires a significant amount of flexibility and agility that well established companies often lack because of deeply entrenched structures. While L’Oréal certainly intends to overcome this barrier by encouraging entrepreneurial thinking, most of the innovation depends on cooperation with external parties such as start-ups and business incubators. Corporate entrepreneurship therefore proposes an even greater shift in business processes to not only accelerate external but also internal innovation. Nonetheless, the company’s “divisions have demonstrated their tremendous adaptability in a world whose transformation keeps on accelerating” (L’Oréal, n.d., Strategy & Model section) making L’Oréal “a market leader with the agility of a start-up” (L’Oréal, n.d., Life at L’Oréal section, para. 6) and therefore a fitting example of how corporate entrepreneurship can benefit businesses.

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## **V. Effectuation**





# Effectuation as a Practical Approach to Entrepreneurship Applied to the Dropbox Case

*Maria Isabel Aguilar Goez*

## Introduction

The entrepreneurial process involves much more than writing a business plan, it is a learn-by-doing and continuous iteration cycle that aims to create and optimize a valuable product or service. Dropbox is a software company that has proved how crucial it is to simply start with the available resources at hand and to understand what the customer wants.

A recent theory in entrepreneurship, considered as emerging in academia, explains key factors in the product development process of Dropbox, hereinafter “the Company”. That theory is called Effectuation and the purpose of this chapter is to address how important it is to comprehend entrepreneurship from a pragmatic point of view. First, is necessary need to understand the axioms of Effectuation, then the story of the Company and its founders because under the effectual logic, the entrepreneur is the main component to be analyzed (Fisher, 2012).

## Effectuation

Effectuation is an emerging entrepreneurship theory created by Saras Sarasvathy in 2001 and described in 2008 by herself as “a logic of entrepreneurial expertise, a dynamic and interactive process of creating new artifacts in the world.”

Sarasvathy and Dew state that entrepreneurs create opportunities by asking key questions “Who am I? What do I know? Whom do I know?” and using the answers to these questions to then respond to the question “What can I do?” (2005, p. 543). This theory is often explained by contrast with causation because they both represent different ways in which the decision-making process can be done in entrepreneurship.

The creator of the theory explains that the differential characteristic between causation and effectuation lies in the set of choices: “choosing between means to create a particular effect, versus choosing between many possible effects using a particular set of means” (Sarasvathy, 2001).

In the specific case of entrepreneurship, causation involves planning before getting into action, which could be a detrimental starting point for a nascent business. On the contrary, effectuation processes are based on the practical performance of the entrepreneur by using its prior knowledge and other resources. We will get back later to this idea when applying this theory to the Company's case.

To understand the theory of effectuation, its key elements must be addressed, according to the society for effectual action (Effectuation 101, 2019), those are:

- Start with your means “Bird in Hand Principle” start taking action with the available resources: who you are, what you know, and whom you know.
- Affordable loss: this axiom consists in evaluating opportunities based on whether the loss is acceptable, rather than on the attractiveness of the achieved goal.
- Stay flexible: “Lemonade Principle” staying flexible encompasses uncertainty as part of entrepreneurship and transforms surprises into creative ways to shape the goals.
- Establish strategic partnerships with people and organizations willing to make a real commitment to jointly creating the future product or service with you, rather than focusing on competitive analysis or strategic planning. This is also known as the “Crazy-Quilt Principle”
- “Pilot in the Plane Principle”: to control the controllable as many things are not in our control, they are just set by the environment. Hence, it is more effective to focus on those elements you can control, even if it is just to a certain degree.

## **Applying the Concept of Effectuation to the Dropbox Case**

It all started with the fact that Drew Houston had planned to work on a programming project during the ride to Manhattan, but left his USB at his apartment. Frustrated, he began designing a service to sync and share files between personal computers over the Internet (Eisenmann et al., 2014).

After that experience on the bus, Houston decided to work full-time on Dropbox, because he needed that service for his everyday life. Moreover, he was very interested in computers and started programming at a very young age, attended the Massachusetts Institute of Technology (MIT), and started building computer programs when he was studying in university.

So far, Dropbox stored and tracked tens of billions of files for a user base of millions of users, not just in the United States. It is important to mention that the Company reached this point without conducting much formal market research on these users and their preferences (Eisenmann et al., 2014).

Additionally, the Company was a late entrant to the online backup services. Despite this, Houston knew that he could fix numerous technical issues that other competitors did not solve and give its clients a unique customer experience. He always had in mind that “The biggest risk is making something that no one wants” and everything he hid with the Company afterward was to avoid that risk.

He started by making a very straightforward and easy video showing how the software worked. Surprisingly, hundreds of people signed in, and the beta waiting list went from 5,000 people to 75,000 people overnight (Eisenmann et al., 2014).

After this, the learn-by-doing approach of the Company is just remarkable and simple at the same time. They launched with landing pages, built referral programs, and asked for feedback directly from customers, plus they were always learning while they were building.

Houston started a business being aware of who he was, what he knew, and whom he knew. He did not take the Company to that point by just focusing on planning and doing a competitive analysis. Most likely, if he would have focused on the fact that his service was going to dive into a red ocean of a lot of competitors, he would probably have quit. Instead, he began by taking action, by testing its product and launching it to the market.

To reinforce the previous statement, I will apply some principles of effectuation to this case:

- Start with your means: for Houston, the set of means is that he was introduced to programming and start-ups at a very young age, went to MIT, and had very special technical knowledge.
- Being aware of the affordable loss or risk: At an early stage, Drew Houston was working full time on the project so the only thing he had to lose at the beginning was just his time. However, he said the biggest risk is creating a product nobody wanted, so he did everything to avoid that risk.

- Staying flexible: they didn't know how the market would react to its product, precisely they kept learning and building methods to improve by asking for direct feedback from the final customers.
- Constraints given by the environment: Dropbox was a late entrant to the fiercely competitive online backup and storage services so the risk was to get lost in this red ocean but they did succeed because of specific features that they introduced and the customer experience.

According to the information obtained about the Company, the strategic partnerships were more important in the mature phase of Dropbox, not so much in the beginning.

## **Why Entrepreneurship Requires a Pragmatic Approach**

Resourcefulness and pragmatism are skills that resonate with the principles of effectuation and which any entrepreneur should have. When starting a business, all the ideal resources won't be available for the nascent company but precisely the fact of starting with the means at hand allows the entrepreneur to learn other ways of getting to the same goal or, being faithful to the same vision.

Effectuation is a theory that comprehends that uncertainty is one of the key elements of entrepreneurship. Therefore, taking action without over-analyzing or planning could be a huge advantage, especially in the case of new businesses.

As Sarasvathy says herself (2001):

*“Because effectuation does not involve elaborate planning and prediction costs but relies, instead, on precommitments to reduce uncertainties, we can state the following proposition about the role of effectuation at the level of the economy: Pre-firms or very early-stage firms created through processes of effectuation, if they fail, will fail early and/or at lower levels of investment than those created through processes of causation. Ergo, effectuation processes allow the economy to experiment with more numbers of new ideas at lower cost” (p. 260)*

The story of Dropbox confirms that the process of creating a business from scratch requires resourcefulness, passion, action, effort, a consciousness of uncertainty and strategy. Most importantly, being practical with the given means and constantly building customer trust by asking directly for feedback, ensures success and a sustainable business.

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# The Effectuation Theory of Entrepreneurship

*Martin Auer*

When starting, founders and entrepreneurs are confronted with many challenges. So much so that 90% of all startups fail within the first 5 years (Marmer et al., 2011). However, some entrepreneurs are doing extraordinarily well. For example, there are so called “super entrepreneurs”, who founded multiple successful and failed companies and taken at least one of them public. The questions of interest are, *do they have traits and habits in common or were they just lucky? Do they have something that unifies them or a special way of thinking? “Are there any universal methods or principles they use?”* (University of Virginia, 2011) To answer these questions, I will first explain the concept of effectuation, introduce a case, and apply this example to the theoretical background. Lastly, I will reflect on the effectuation theory and draw a conclusion.

The term effectuation was first introduced and coined by Professor Saras D. Sarasvathy in 2001, an Indian cognitive scientist and by now a world-renowned entrepreneurship professor. As part of her doctoral thesis, she researched how supraentrepreneurs act and make decisions in uncertain times, like a company's founding phase. To find answers to the questions mentioned in the introduction, she and her research team studied a sample of super entrepreneurs with diverse backgrounds and let them answer the same questions while thinking aloud. In the questionnaire, they confronted the entrepreneurs with 10 typical challenges that aspiring entrepreneurs most likely will face when founding their venture and asked them how they would approach the challenges. The research team was able to identify a compelling picture of how those entrepreneurs thought and which decision patterns they commonly used by using the method of protocol analysis. (Laplume, 2021; Effectuation erklärt | Effectuation Forschung & Praxis, o. D.). “Sarasvathy found that 65% of the respondents used effectual logic 75% of the time when they were solving the problems” (*Effectual Principles*, 2016). When using effective reasoning, one assumes that the future is unpredictable and therefore cannot be planned. Since startups are much more susceptible to minor problems, such as delivery bottlenecks, which could mean the early end for the company, the study found that the expert entrepreneurs do not try to predict the future but start from what they can control - themselves and their decisions. Therefore, experienced entrepreneurs do not act in a goal-oriented way but mainly in a means-oriented way (Sarasvathy, 2003). An appropriate quote from Arthur Ashe that sums up the issue well is: *"Start where you are. Use what you*



*have. Do what you can*" (Hazlewood, 2021). This common trait of how the entrepreneurs approached the process of building businesses, is contrary to the established "*managerial thinking*" which was and still is being taught in business schools. Causal thinking (managerial thinking) focuses on predetermined goals, and one uses the available means or given resources to reach them. Those who use entrepreneurial thinking (Effectual Reasoning), on the other hand, use the available set of means to imagine new ends and possible goals.

As the website "Businessgyan" puts it: "*Managerial thinking is like cooking items on a pre-specified menu with the help of a recipe book.*" (Entrepreneurial thinking versus managerial thinking, 2007). On the other hand, entrepreneurial thinking, looks at what ingredients are available and then creates a new dish. Neither way of cooking says much about the quality or taste - it always depends on the chef's skill, talent, and experience. However, the second (entrepreneurial) approach is more likely to create something new and novel.

To better understand this theoretical concept of effectuation, the following part will look at how this is implemented in practice. For this purpose, a case is described and applied to the following principles of effectual logic and proven through examples. Since Sarasvathy used a sample of expert entrepreneurs in her study, attention was paid to selecting such a type of entrepreneur who also fits this definition: Elon Musk.<sup>4</sup> From his early career on one can notice the notions of effectuation. In his success story, he founded multiple companies. His first company, "*Zip2*", he founded with his brother in 1995. After the successful sale of this company, he built an online payment system, which was first called "*x.com*" and was later being sold to ebay with the name "*Paypal*". As the largest shareholder with 11,7% of shares, Musk received over \$180 million dollars in the sale (Vance & Musk, 2020). He has used this money to build up his biggest ventures yet – companies that most people know him for, named *SpaceX*, *Tesla* and *SolarCity*. Since there are indications that he has used effectuation throughout his career, this paper will focus not just on one of his companies, but on some important and outstanding moments where it became clear how he applied effectuation.

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<sup>4</sup> Not only has he built several successful ventures, just as the expert entrepreneurs from Sarasvathys study, but he also has well over 15 years of experience as an entrepreneur. He was on Time Magazine's "*100 Most Influential People*" list in 2010, 2013, 2018 and 2021. Furthermore, he was named Times Magazine's 2021 "*Person of the Year*" and leads the "*Bloomberg Billionaires Index*" and the "*Forbes billionaires list*" as the wealthiest person in the world. („List of awards and honors received by Elon Musk“, 2022)

While analyzing the thinking patterns of the expert entrepreneurs, Sarasvathy and her research team found five core principles, which make up the effectual logic:

### **Bird in Hand Principle**

Expert entrepreneurs start with their means. They ask themselves, „*who am I, what do I know, and whom do I know?*”. With the inventory of their means, they imagine different possible outcomes and ends originating from their means. (Sarasvathy, 2003) This first principle, “*bird in hand*”, can be well illustrated by an example from Elon Musk’s biography: At SpaceX, they used household things for their rockets. Instead of buying cost-intensive special parts, they just looked at what they already had and how they could use it. “*The company [SpaceX] likes to use freely available consumer electronics for this purpose instead of special space technology like others in the industry.*” (Vance & Musk, 2020, p. 208). This is not only creative and cost-efficient, but they also used the effectual logic, by looking at what resources they already had at hand and what they could do with it.

### **Affordable Loss Principle**

Instead of asking what the expected return will be, effectual reasoning focuses on the downside risk of a venture. With effectual reasoning, one tries to minimize the risk, along with the principle of: „*What can I afford to lose?*” Although using available resources and exploitation of existing opportunities could be called opportunistic, entrepreneurs acting with effectual reasoning try not to be, as they assess the consequences of their actions and decisions according to the principle of affordable loss. (University of Virginia, 2011) The “*affordable loss principle*” is an exception because Musk takes high risks compared to other entrepreneurs. This becomes clear in the example when he has invested all the proceeds from the sale of PayPal shares in other companies without building up reserves. He later said, “*I had to borrow money for rent*” (Ritholtz, 2017)<sup>5</sup>. A quote which also clearly shows his attitude towards risk is: “*It's OK to have your eggs in one basket as long as you control what happens to that basket*” (Chafkin, 2020).

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<sup>5</sup> Full quote: “My proceeds from the PayPal acquisition were \$180 million. I put \$100 million in SpaceX, \$70m in Tesla, and \$10m in Solar City. I had to borrow money for rent” (Ritholtz, 2017)

## Lemonade principle

“The third principle of effectual reasoning is at the heart of entrepreneurial expertise — the ability to turn the unexpected into the profitable. Expert entrepreneurs learn not only to work with surprises but also to take advantage of them” (*Effectual Principles - VI*, 2017). The principle is named after the proverbial saying: “*If life give you lemons, make lemonade out of it.*” It means seeing surprises as opportunities and embracing the potential they hold and welcoming the surprise factor. A quote from Musk that fits the “Lemonade principle” is: “When something is important enough, you do it even if the odds are not in your favor.” This clearly shows, how he tries to make the best out of every situation, even if the odds – “the lemons” are not in his favor.

## Patchwork Quilt/ Crazy Quilt

The experienced entrepreneurs form partnerships rather like a patchwork quilt than a jigsaw puzzle, where the result is clear. Partnerships are built with self-selecting stakeholders and uncertainty is reduced by obtaining pre-commitments from the stakeholders (University of Virginia, 2011). In 1999 “*x.com*” was one of the first federally insured online banks, and to that time, one of the biggest of its kind. A year later, they merged with their up-to-then competitor, “*Confinity*”, to prevent unnecessary competition - a fusion that would later be named “*PayPal*”. This can clearly be called an example of the “*Patchwork quilt*” because it was not predictable to enter a partnership like this. The partners were self-selecting and joined together more like a patchwork quilt than a puzzle (Vance & Musk, 2020, p. 84).

## Pilot-in-plane

*Pilot-in-plane* describes less a principle and more the fundamental worldview and mindset that expert entrepreneurs have, which can best be summarized with the words of Abraham Lincoln: “*The best way to predict your future is to create it*” (Brown, 2020). Alternatively, Sarasvathy puts it: “By focusing on activities within their control, expert entrepreneurs know their actions will result in the desired outcomes. An effectual worldview is rooted in the belief that the future is neither found nor predicted, but rather made” (University of Virginia, 2011). The fact that Elon Musk has a “*Pilot-in-Plane*” mentality can be seen well in the following quote: “*I could either watch it happen or be a part of it*” (Sari, 2022). He said this quote in the context of major future trends that he assumed would occur. But since he cannot foresee the future either, he tries to create

change through his own companies and thus help shape the future. With Tesla - which is worth more right now than all the major German carmakers combined (Richter, 2020) - he has already succeeded to such a degree that other major carmakers are now also focusing mainly on electric vehicles for their future strategies - a strong competition like Tesla will have given many incentives.

In conclusion, one can say effectuation can be seen as a heuristic approach to act and decide during uncertain times. Especially during the founding phase of an organization, the effectual logic, which is merely mean-oriented instead of goal-oriented, can help to develop creative possibilities and ends. Furthermore, it is a motivating plea that one does not need all the resources but that one can start with what one has available right now. Effectuation logic can help entrepreneurs identify things they can implement with the resources at hand.

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# The Founding of Mazda: From Cork To Cars

*Nele Bestek*

## Introduction

This chapter will be about Jujiro Matsuda, one of the substantial founders of one of today's biggest automobile manufacturers, Mazda Motor Corporation, and its founding history.

Jujiro Matsuda, born in 1875, was a Japanese businessman and engineer who founded and managed several successful businesses (Jin, 2014). Even though he lived long before the term startup was coined in 1976 in Forbes Magazine, he certainly can be described as a startup founder by today's standards. In the upcoming, I will investigate if Matsuda can furthermore be described to follow Saras Sarasvathy's method of Effectuation that was published in 2008.

## Method of Effectuation by Saras Sarasvathy

How do entrepreneurs think differently and what do they do to implement their world views and values in their work and actions? How do networks of self-selected stakeholders grow? These are some of the questions cognitive scientist Saras Sarasvathy investigates in her research about Effectuation. To do so, Sarasvathy constructed a 17-page problem set of ten typical decisions startups must face and let 27 so-called „expert entrepreneurs“ work through them (Sarasvathy, 2008). In an interview with Big Think in May 2009, Sarasvathy explains that expert entrepreneurs have not only built businesses successfully but have also experienced setbacks and failure. There are two major characteristics that ultimately define whether one can become a successful entrepreneur; namely, if they are willing to commit and act and if they quit after failing or start all over (Big Think, 2009).

In her research, Sarasvathy focused on entrepreneurial expertise by comparing tactics of reasoning in the process of new venture creation and tried to find similarities across various entrepreneurs. She discovered certain patterns in behavior and deduced five principles entrepreneurs adhere to. Thus, she composed the method of Effectuation. It shows how ideas can advance to sellable products, how stakeholders are selected and convinced to fully commit to the venture and what techniques can be used to determine what to do next (Big Think, 2009).

## **The Founding History of Mazda and its Founder Jujiro Matsuda**

Taking over the management of Toyo Cork Kogyo Co., Ltd in 1920 and transforming the almost bankrupt cork company into one of the biggest automobile manufacturers can most certainly be seen as Jujiro Matsuda's biggest accomplishment (Mayo Sanz, n.d., Hoshi and Kashyap, 2001). However, it is not the only success story that shaped the businessman's life.

Born as the son of a poor class fishermen-family in Hiroshima, Matsuda never went to high school. Already at the age of 14 he started an apprenticeship at a blacksmith shop (Jin, 2014). In 1906 he invented a water pump that would get him promoted to director of the shop. However, due to unclear reasons, Matsuda would eventually be compelled to leave the pump company (Mayo Sanz, n.d.). In 1912, Matsuda would then found Matsuda Works, an armament manufacturer in Osaka. During only a few years, he managed to seal major contracts with the Japanese army and the Russian Tsar (Mayo Sanz, n.d.; Jin, 2014). When returning to his hometown Hiroshima, he was offered the management of Toyo Cork Kogyo Co., Ltd (Hoshi and Kashyap, 2001). As new manager, he introduced several new cork products that, however, did not help the company prevail on the dying market when gradually other materials took over (Mazda UK, 2020). So, in April 1929, Matsuda led the company into machinery manufacturing with the production of the first prototypes of a three wheeled truck and thus built the basis of Mazda in today's sense (Mazda, 2020). Matsuda then already was second president and can be considered one of the substantial founders of Toyo Kogyo (Mazda UK, 2020).

## **Applying The Case Study To The Method**

In the following, I will investigate in which ways Matsuda fits Sarasvathy's understanding of being an expert entrepreneur and how his behavior aligns with the principles of entrepreneurial expertise.

In the interview Sarasvathy explains that she noticed many of the questioned entrepreneurs unconsciously adhere to certain behavior patterns (Big Think, 2009). Hence, I believe that this could also be the case with Matsuda. As there is in general little information on Matsuda's life before Mazda, I will focus on his observable behavior and base my solutions in the available reports.

### *Characteristics of an Entrepreneur*

During his career, Jujiro Matsuda essentially founded three very successful companies, of which two are even until today in active business. Nonetheless, his path has not been an ongoing winning streak, as he was compelled to leave Matsuda Pump Limited Partnership only a few years after becoming director. Even with new introduced products, he also did not manage to bring Toyo Cork Kogyo Co., Ltd back on track.

And just like Matsuda, many of the entrepreneurs that took part in Sarasvathy's research have faced major setbacks during their careers and still managed to build successful businesses (Big Think, 2009). After dealing with setbacks, he learned from his mistakes and successfully launched several new products. Moreover, Matsuda was never afraid of starting to commit. Even though he never visited any kind of higher educational institute, he not only managed to launch several new products, but also took on the challenge of becoming part of a company's leadership at only 31 years. His lack of education never stopped him from taking the first step and pushing things further.

This kind of behavior very much aligns with Sarasvathy's understanding of how entrepreneurs should act and behave, indicating that Jujiro Matsuda can be considered an expert entrepreneur.

### *The Core Principles of Effectuation*

Following, I will apply Matsuda's behavior to the five core principles Sarasvathy deducted in her research.

#### **Bird-In-Hand Principle: Means**

The first principle Sarasvathy conducted, shifts around the understanding that expert entrepreneurs will focus on their means: who they are, what and whom they know and what resources they have. If they are clear about these aspects, they will focus on what possibilities can be derived from these means. By this, they shift away from goal-driven actions (Big Think, 2009; Sarasvathy, 2008).

It seems Matsuda has always been aware of his means, of who he was and what he was good at. He always understood himself as an engineer and knew that the knowledge he gained during his apprenticeship provided him with the needed know-how. It appears like he always felt attracted to leading and managing, never dislodging from this self-image, always using his abilities to build



successful businesses and networks. Therefore, his actions align with the first core principle of Sarasvathy's research.

### **Affordable Loss Principle: Focus On The Downside Risk**

Entrepreneurs often get perceived as risk takers when instead they should rather be described as conscious about what they are willing to lose. The second principle deals with the question: "Would I do the same, even if I could lose?". If the answer is yes, they will go for it. (Big Think, 2009; Sarasvathy, 2008)

When Matsuda was forced out of the pump business, he had very little to lose anyway, which might not indicate that he adhered to this principle. However, when taking over the management of the cork company, Matsuda did hold something at stake. He was doing exceptionally well in the armament business. Leaving this business and taking over the management of a cork factory could potentially mean losing a considerable amount of money. Plus, he was moving away from a very flourishing market. Still, Matsuda decided to take on the risk and accept the position, to return once again to his hometown and take on a new challenge in management. During his career Matsuda continuously launched new products, which all came with the risk of flopping. His actions and behavior indicate that Matsuda was ready to take on some risk, but he never put more at stake than he could afford to lose. Hence, he also did follow the second principle very well.

### **Crazy-Quilt Principle**

This principle focuses on the fact that expert entrepreneurs often build partnerships with everyone who is equally committed to their venture. By this, entrepreneurs can co-create new markets together as they are supported by a strong network of stakeholders. (Big Think, 2009; Sarasvathy, 2008)

Unfortunately, there is not much information on Matsuda's partnerships and network available. However, it gets clear, that he always worked together with other stakeholders. For example, his first business was called Matsuda Pump Limited Partnership, indicating that he must have worked together with other people. He was also part of a business leader group that helped him become president of Toyo Cork Kogyo Ltd (Hoshi and Kashyap, 2001). However, to which extent Matsuda persuaded his partners to commit to his ideas does not get entirely clear. Sure is, Matsuda operated

in a network of partners and co-leaders when founding businesses and thereby showed similarities to the third principle.

### **Lemonade Principle: Leverage Contingencies**

Instead of trying to predict the future as accurate as possible by causal reasoning, the fourth principle focuses on the exact opposite. Expert entrepreneurs accept the future as entirely unpredictable and even invite the element of surprise, acknowledging this could potentially provide clues to improve their product or idea. (Big Think, 2009; Sarasvathy, 2008)

Matsuda also never seemed to waste much time on market research. He has always been interested in constructing new products and just followed where his ideas would lead him. When his first inventions for Toyo Cork Kogyo Co., Ltd did not save the company, he followed other ideas, pushing the company to develop into an entirely new direction just like Sarasvathy's method suggests.

### **Pilot-In-The-Plane Principle**

Entrepreneurs work with what they can control, so their actions will lead to the desired outcome. They find out what people are willing to do and what makes them commit to the idea. They believe that the future is made and shaped by their actions. (Big Think, 2009; Sarasvathy, 2008)

As already stated, there is not much information on Matsuda's interaction available. Nevertheless, it can be possible that he indeed believed in this principle, as he never seemed to feel like his circumstances would prevent him from pursuing anything. Even though he was born into a poor class family, he worked hard, pushed his ideas and eventually shaped a completely different future for himself than people with a similar back story might have. This cannot be seen as a substantial argument that Matsuda also adhered this last principle but allows the presumption.

## **Conclusion**

Summing all this briefly up, this investigation indicates that Jujiro Matsuda represents a good example on how Sarasvathy's method of effectuation can be successfully applied. His career showed that, by committing to an idea rather than focusing on causation and prediction, startups can be built successfully and quickly develop further into companies that can exist for centuries and longer.

It is important to note that, due to lacking detailed information and interview material, further deeper investigation might alternate some of the findings stated above.

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## Effectuation: How Juststickit Uses Entrepreneurial Principles And Reinterprets An Old School Product

*Noah Böker*

### Concept

Effectuation is a modern management theory delineated by Dr. Saras Sarasvathy in the early 2000s that focuses on entrepreneurial decision making in situations of uncertainty and is – according to the definition of Ann-Kristin Achleitner (2018) – used by many successful entrepreneurs when they have to create new ventures in their business. It is thus explicitly relevant for the following situations where a market forecast is difficult to accomplish: a new product is launched in a new market, a new product is launched in an established market and/or an established product is launched in a new market. For a possible situation where an established product is brought into an established market, Effectuation is irrelevant (Achleitner, 2018) as the theory is more about “entrepreneurial gut decisions” (Gründerplattform) and follows a more intuitive approach than opposing established theories. Effectuation consists of five key principles trying to find an answer to the question of what makes an entrepreneur entrepreneurial (Sarasvathy, 2001).

The theory of Effectuation is based on the assumption that managers can’t control the circumstances but their reaction to them (Faschingbauer, 2013, p. 32 f.). Hence, Effectuation is a way of dealing with the future from an entrepreneurial perspective (Sarasvathy et. al., 2003).

Scientific management focuses more on rational data analysis than on improvement based on subjective levels (Gründerplattform). To clarify the difference between Effectuation and more conventional management theories, researchers have found an accurate metaphor: the goal-based approach of conventional management theories is like wanting to cook a meal and then getting everything we need. In contrast, „if you are cooking effectually, you look at what is available in your kitchen and determine what you can make with it“ (Sarasvathy, 2019). For sure, either theory can be appropriate depending on the company and the circumstances (Sarasvathy, 2001).

### Case: Juststickit

The Hamburg-based company *Juststickit* successfully implements the five core principles of Effectuation. The two founders Alexander Böker and Oliver Wurm had the idea of creating Panini

sticker albums for cities – customers can collect stickers of sights, personalities and other attractions of German cities, analogue to the well known football stickers. To get an understanding of how *Juststickit* uses effectual principles, I interviewed Oliver Wurm about his company.

The reinterpretation of Panini stickers opened the way to a new target group: instead of only children, *Juststickit* tries to appeal mainly to adults (relying on the buying motive of bringing back childhood memories adults have with football stickers) (O. Wurm, personal communication, January 3, 2022). It can be questioned whether *Juststickit* brought a new product to an existing market or whether they launched an existing product in a new market. Anyways, *Juststickit* created something new and could not be certain about the success of its venture which is exactly the domain of Effectuation. *Juststickit* earns around 70% of its revenue by the sales in newspaper shops. As the sellers don't collect data, it is indispensable to apply effectual principles and to rely on "entrepreneurial gut decisions": O. Wurm, personal communication, January 3, 2022).

## Principles of Effectuation in the Case of Juststickit

The first principle of Effectuation is called the *Bird-in-hand principle* and illustrates the resource-based approach of the theory: when starting a business or creating ventures within an existing business, entrepreneurs shouldn't spend too much time on optimization before they even begin to do something but work with what they already have. The metaphoric "bird in hand" can relate to capabilities as well as to personal interests and network. Three helpful questions help to determine the "bird": What do I know? Who am I? Whom do I know? (Faschingbauer, 2013, p. 38 ff.).

When I interviewed Oliver Wurm, co-founder of *Juststickit*, about the starting phase of their Panini project, he claimed that right after he and his partner had the idea, they immediately started the project. As they both knew each other from a lifestyle magazine and thus had a journalistic background, they already had the means to develop the content of the albums. Wurm also claims that his abilities in marketing and sales (promoting himself and the product) may have helped to pre-finance the first album as a kick-off. "Basically, we monetized our capabilities", Wurm told me. The result: the first album had a sales volume of almost 1 million € and was the basis for 51 more sticker albums to follow (O. Wurm, personal communication, January 3, 2022).

Another core principle is the *lemonade principle* which depicts a mind shift from "problem thinking" to "opportunity thinking": according to Effectuation, entrepreneurs need to consider

unexpected changes as a chance for new opportunities (Faschingbauer, 2013, p. 67). Mistakes and problems should be used to shape the future. The pandemic for example is/was a huge problem for many entrepreneurs who weren't prepared for a lockdown. In contrast, other companies made huge profits in the crisis by adapting their strategies (Telser, 2020). In the case of *Juststicket*, the company suffered from the closure of many newspaper shops – Böker and Wurm saw it as an opportunity to enhance their online business. The online-sales volume quadrupled, and *Juststicket* “gave surplus value to their customers as many people found distraction from the crisis when sitting home and collecting panini stickers” (O.Wurm, personal communication, January 3, 2022).

After publishing the album “Köln sammelt Köln”, *Juststicket* noted an ill-fated mistake: instead of Cologne's “Rheintunnel”, they printed the one in Düsseldorf. This was sort of an embarrassing mistake as the cities are great rivals. However, when Böker and Wurm discovered their misfortune, they immediately thought about the opportunities this offered: “We told the story to several newspapers before they could write anything bad about us, so we decided to make the mistake a topic of conversation instead of hushing it up” (O.Wurm, personal communication, January 3, 2022; see also Kölner Express, Schade, 2014). The newspaper articles then were mainly positive, written with great sympathy for the founders. More than that, according to Wurm, they were – due to solution-oriented thinking and the right communication – “a kick-off for the project sales”.

“We always try to create a win-win-win situation for our three stakeholders [the corporate, the partners and the customers]”, Wurm explains, “therefore, we treat our partners generously in order to build strong connections.” According to the *crazy-quilt principle*, forming partnerships is a key factor for expanding one's resources (Faschingbauer, 2013, p. 44). In the case of *Juststicket*, the generous dealing with partners indeed led to new opportunities as it gained publicity from several radio shows and newspapers by just allowing them to brand the albums: “the partners benefit from a truly creative idea and can use it for their customer-relationship, without any economic risk” (O.Wurm, personal communication, January 3, 2022). For example, *Juststicket* set up a partnership with the Funke media group for a sticker album about the “Ruhr area”. This resulted in a cooperation for six more albums – just because the partnership was winded up in a very cooperative and generous way (O.Wurm, personal communication, January 3, 2022).

As there is limited chance to track data on the target group and as there is hence no market forecast, the revenues are quite fluctuating and unforeseeable and constant costs for employees may lead to

financial shortages. Therefore, Juststickit chose to not employ co-workers and instead built up a network of flexible partnerships. The approach to a new album is always similar: in order to pre-finance an album, good connections are essential for publicity. Most of the pre-financing is done by negotiating deals with companies or sponsors that pay to be represented as stickers for promotion (O.Wurm, personal communication, January 3, 2022).

Simultaneously, this plays the fourth principle – the *affordable loss principle* – in the cards, as the pre-financing is a risk-minimizing factor. This was crucial notably in the starting phase with few equity. “Entrepreneurs decide what they can afford to lose”, meaning you should only invest as much as you can afford to lose (Sarasvathy, 2019). Wurm says that before *Juststickit* puts time and money into a new album, it has to pre-finance 70% of the final costs with debt capital: “If we don’t have the 70% beforehand, we don’t do the album.”

The fifth principle of Effectuation is called the *pilot-in-the-plane principle*: entrepreneurs should only „control the controllable“ and use their time to focus on the things they have an influence on (TUDelft). *Juststickit* uses this principle when dealing with the Grosso system: the sales system is reliance-based and thus very vulnerable for deception. Because of the said lack of sales data, the grossist can easily fake the sales numbers. Instead of finding ways to cut this dynamic, the company focuses on optimizing their products. This case is an example for *Juststickit* following the principle of focusing on the things it can control and putting their energy in income generating activities rather than holding on to seemingly important but uncontrollable issues (O.Wurm, personal communication, January 3, 2022).

In general, the case of Juststickit shows a successful implementation of Effectuation.

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## **The Establishment of the Company Bio Power Service: An entrepreneurial approach?**

*Carlotta Waldeck*

### **Introduction**

The following book chapter contains an analysis of the company Bio Power Service GmbH & Co KG and its founder Garloff Langenbeck applied on Saras D. Sarasvathy's theory of Effectuation. This will be answered by evaluating scientific research and an interview with the founder and managing director of the company Garloff Langenbeck which I will cite in the following text.

### **Effectuation Theory by Saras D. Sarasvathy**

The concept of Effectuation describes the approach of experienced entrepreneurs in the decision-making process or in dealing with challenges while establishing a new company or product (Achleitner, 2018). The exact business goal is still uncertain and the situation can be additionally confronted with new possibilities or complications. A dynamic of different stakeholders, environmental aspects and resources leads to new opportunities and tools from which possible goals can be determined (Sarasvathy, 2008).

The entrepreneurial approach of Effectuation deals with four main principles. The first one is the bird in the hand concept where a businessman begins by asking him or herself: Who am I? What do I know? Who do I know? All these questions refer to resources (e.g., skills, interests or relationships) that can be helpful in starting a business such as former education or business contacts that one has made in his/her career so far. From these results one can identify possible destinations which can vary depending on the resources given. Therefore, entrepreneurs do not commit themselves to one destination, but experiences a diversity that can be combined in new ways and might create completely new ideas (Faschingbauer, 2017).

Directly influencing this is the co-creation partnership principle, in which business partnerships are formed that offer even more resources and opportunities for innovative business ideas and objectives. The effectual strategy is for the different stakeholders to use each other's knowledge or relationships. This collaboration can take away many uncertainties for entrepreneurs in the early stages of a start-up (2017).

Another principle is the affordable loss. Since the exact goal and therefore the possible success is uncertain, the effectuation logic deals with the amount of loss one is willing to have. The entrepreneur does not decide for an idea on the basis of a profit calculation but goes the way into the unknown with the question in mind: what loss am I willing to have? (2017). Effectuation also deals with the management of new circumstances and surprises that occur in the course of a company's development or during its establishment. Changes and challenges are neither evaluated as good nor bad, but instead they are seen as opportunities to establish new lines of business. Taking into account the affordable loss, the company can continue to develop. Eventually, the initial challenges may lead to profitable business branches in the future (2017). Another aspect of the effectuation logic is the character of an entrepreneur. As a pilot in the plane, he or she is in control and has a direct influence on the company's future. When an entrepreneur creates a company based on the logic of effectuation, this process happens in a cycle and is characterized by the correlation of the different principles. First, you become aware of your own resources and perhaps already recognize a market direction. Then, partnerships can be formed that may expand the field or point to new directions. The entrepreneur acts under the concept of affordable loss while new ideas are developed. Changes and difficulties are adopted and may affect resources, goals, and partnerships. Thus, under the concept of effectuation, a business process is always changeable and innovative ideas can constantly emerge ([https://www.effectuation.org/?page\\_id=4055&principle=effectual-cycle](https://www.effectuation.org/?page_id=4055&principle=effectual-cycle)).

## **Bio Power Service GmbH & Co. KG**

The company Bio Power Service GmbH & Co.KG is a consulting company offering expertise in the field of biogas plants and belongs to the industry Renewable Energies. Their products include detailed expert advice on all aspects of biogas plants and laboratory analyses, which are carried out in their own laboratory, which has been accredited since 2013. Furthermore, the permanent customers have the opportunity to participate in safety trainings and get certified measurements, which are required by the policy nowadays (Biopower Service - Quality management manual, 2018; Interview).

The company was founded in 2006 by the managing director Garloff Langenbeck and is located in Bordesholm, Schleswig Holstein in Germany. Since its foundation, it has expanded greatly and

advises more than 140 permanent customers today and another consulting office was established in Brandenburg (Interview).

The company has a consulting team led by Mr. Langenbeck, a laboratory team and an administration team. The biogas plant industry makes up a small part of the renewable energy sector and is therefore a small industry that is influenced by political decisions. The power generation depends on complex biological processes within a biogas plant. To operate as efficiently as possible, many biogas plant owners take advantage of the consultants' expertise and have tests conducted in the independent laboratory. "Running an internal laboratory allows us to obtain new knowledge and perform scientific tests ourselves. This allows us to advise our customers individually and stay scientifically up to date" (Interview). The laboratory and the consultancy act independently of each other in order to be able to offer a trustworthy product (Bio Power Service - Quality management manual, 2018).

### **Application of the Foundation and Development of the Company to the Theory of Effectuation**

Before Garloff Langenbeck decided to become self-employed and to establish his own company he addressed the questions: Who am I? What can I do? Who do I know? He came to the conclusion that, as the father of three children, he wanted to work in a future-oriented industry. Furthermore, he was aware that he wanted to become independent because he wanted to have more control over his career path and the morals of his business (Interview).

As an employee in two other companies that offered the installation, planning and operation of biogas plants, he realized that he was interested in the industry and would like to acquire further knowledge in this area. He saw the potential and need for a consulting company in the young industry. Unlike the Effectuation theory, the goal was clear, but the exact development and direction of the consultancy remained open because it was unclear how the industry itself is going to develop. Resources and mediums were evaluated and influenced the company's formation (Interview). His studies to become an agricultural engineer and his apprenticeship on a farm provided experience in dealing with later clients who were also farmers and helped in understanding the biochemical processes. However, the industry was still very new at that time and therefore little prior knowledge existed and expertise had to be acquired. For this reason, it

was an advantage that the company had its own laboratory with an experienced laboratory manager from the very beginning. They were able to gain their own knowledge (Interview).

The partnership with another entrepreneur supported him during the foundation of the company and brought him some customer's right at the beginning. Thus, he had already on the company's foundation day revenues which offered him security in the beginning. The company costs remained as low as possible in order to maintain stability in the first years. For this reason, the initial growth was slow but steady and the potential damage was controllable. New investments were borne from the cash flow and therefore the possible loss was bearable like in the principle of affordable loss (Interview). Similar to the Effectuation theory, the entrepreneur used cooperation with other companies and to gain security in the start-up. The collaboration with a customer, who built biogas plants, led to new long-term customers. The companies TW Biogas and Biopower Service exhibited together at trade fairs and thus acquired customers who initially built a biogas plant and then relied on the expert advice of Bio Power Service (Interview).

The service package of the company has quickly made a name for itself in the young industry as there is nothing comparable to this day. Bio Power Service is known for keeping up with changes in the market and always redesigning and adapting the consultation to the external circumstances (Interview). When the company was founded in 2006, the biogas industry was booming. Based on this growth, the business was able to develop well. In 2014 there was a drop, because political decisions caused that less plants were built or some even had to close. Bio Power Service had to build up an additional business area in order to maintain the main activities, i.e. consulting and laboratory analyses. A new branch of business the gas camera and the sale of trace nutrients were developed. Subsequently, the firm could be stabilized again and it even expanded. Additionally, the company has specialized in waste plants, which area has expanded in comparison to the other biogas plants. This shows that the company has responded well to challenges and has been able to adapt the offer in order to continue to be profitable in the market (<https://www.biopower-service.de/index.php/service>).

Furthermore, the policy gave more and more regulations for the customers. For this reason, Bio Power Service expanded its offer and now holds certified safety trainings that are required by law (Interview). For this purpose, the company cooperates with the lecturer Martin Paproth, who performs these trainings together with Garloff Langenbeck (<https://www.biopower->

service.de/index.php/schulungen). Again, Bio Power Service was able to take advantage of changes and even established a new profitable line of business.

"A biogas consultant must be well acquainted in all areas and must obtain knowledge that he can later sell as a service" (Garloff Langenbeck, Interview). Bio Power Service has always been attractive to customers because of their all-around advice. They offer a full package and are always evolving to stay on track with the industry. "That's the way it is in a lot of areas, some are added and others are scaled back. In a healthy business, you can afford these losses and you have to, because otherwise you don't evolve" (Garloff Langenbeck, Interview).

## Conclusion

All in all, the foundation and development of the company Bio Power Service can be applied to the concept of effectuation. Mr. Langenbecks decision to establish the company was made from existing mediums and partnerships were formed. Changes in the industry were addressed and solutions were found. The consulting product was a rarity in the new branch, which had to be established and proven first. No market forecasts could be made and therefore the costs and the possible loss expectation for new projects had to be bearable. Today the company is more successful than ever because it continues to evolve innovatively and adapts to new market conditions. Nevertheless, the case study is not precisely transferable to the Effectuation method, since the consulting goal offers only a few modifications and the orientation of the company and the market has limits. Accordingly, the entrepreneur is limited in the development of ideas.

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## Concluding Remarks: Moving Forward in Management Education

*Matthias Wenzel*

In this thoroughly updated book, management and entrepreneurship students have provided a vivid introduction to key concepts, theories, and approaches in management and entrepreneurship. They have done so by drawing on these to shed light on what it means to be a manager or entrepreneur in the cases that they had selected. The breadth of cases covered in this book is undoubtedly remarkable. They range from well-known ones such as Amazon, Netflix, and Tesla to less prevalent ones such as Rügenwalder Mühle and a creamery. Despite this heterogeneity, the contributions to this book share that they typically center on aspects related to entrepreneurship, managing the digital transformation, and sustainable and responsible management.

Through these contributions, the students have contributed to continuing the materialization of several quests for innovating management education (Wenzel, 2022a). First, through their interest in cases related to entrepreneurship, managing the digital transformation, and sustainable and responsible management, the contributors have generated further evidence that these themes are the main, if not the most important organizational and societal challenges of our time (see also Wenzel, Krämer, Koch, & Reckwitz, 2020). Therefore, I argue that modern study programs in business administration and management need to focus greater attention on these themes.

Second, the students have used management theories and approaches as “lenses” to make sense of what it means to be a manager or entrepreneurs in cases at hand. In doing so, they have begun to form the conceptual skills needed to act as “reflective practitioners” (Schön, 1984) who are able to navigate through complex, ambiguous, and partly even uncertain challenges through the eyes of management theories.

Notably, in contrast to the previous edition (Wenzel, 2022b), most contributions in the current version offer thorough reflections that display their use of formed conceptual skills. The proportion of contributions that apply management theories, concepts, and approaches in an instrumental, mechanistic way is much lower in the current version. While this development is promising, it is important to remind us that management education is, or should be, more than the mere formation of technical skills in the instrumental use of tools for solving business problems at hand. Especially given the complexity of contemporary business environments, management tools are overly



simplistic, as they cannot do justice to the contextual specificities of the situations at hand. In such situations, they insinuate clarity when things tend to be unclear (see Ghoshal, 2005). Therefore, expectations brought against management tools are oftentimes overly optimistic: It is difficult, if not impossible to make well-grounded managerial or entrepreneurial choices and decisions based on an unreflective instrumental use of management tools when a decision situation does not match the assumptions in which these tools are embedded. In turn, conceptual skills enable students and, thus, later managers or entrepreneurs to be reflexive and reflective about their use of management knowledge. Furthermore, in contrast to the domain specificity of technical skills, conceptual skills are “meta” in nature in that they enable students, managers, and entrepreneurs to engage with and enact many, if not most challenges that they face in today’s business environment. This is so because the reflective practice built into conceptual skills does justice to the contextual specificities of the problem at hand so as to develop appropriate solutions. As backbone of conceptual skills, management theories and approaches can be helpful in this regard.

Third, the contributors to this book have demonstrated that even larger cohorts do not require one-directional head-on lecturing to produce decent learning outcomes. Specifically, while guided, the students developed the conceptual foundations for their chapters themselves in small groups, which presented their work results to the whole group later on. This group work, thus, provided the conceptual starting points for the pieces included in this book.

Finally, the book encourages harnessing the intertwinement of knowledge production and consumption in management education. By providing students with room for discussions and reflections, they were able to generate thoughtful chapters that partly advance original insights. Some of these insights may inspire management and entrepreneurship scholars and practitioners as they take time to read or sift through this book. This observation, I hope, will encourage lecturers in business administration and management programs to innovate their forms of teaching and assessing.

The Bachelor program in International Business Administration and Entrepreneurship (IBAE) at the Leuphana University of Lüneburg provides a promising frame for continuing this learning path for students. In the following, I circumscribe the core tenets of the program.

## **IBAE—A Unique Profile for Changemakers**

IBAE is an English-speaking Bachelor program in business administration for the 21<sup>st</sup> century. It is designed for changemakers who would like to make a difference in business and society. The program does so by forming students' skills to examine and enact entrepreneurship, the digital transformation, and sustainability as key challenges of today's globalized business environment. Specifically, the program unique combines the foundations of business administration such as accounting, finance, and marketing with entrepreneurship, managing the digital transformation, and sustainable and responsible management as key, rather than marginal features of the curriculum. In doing so, IBAE prepares students for the contemporary challenges of business in society.

## **IBAE—Your Studies Your Way**

IBAE could hardly be offered anywhere else than at the Leuphana University of Lüneburg because the program is deeply intertwined with the study model of the Leuphana College. Bachelor programs at Leuphana consist of a generalist, disciplinary major, an extension of this disciplinary perspective by a minor, and the development of an interdisciplinary perspective through complementary studies. Hence, IBAE students get to complement their generalist major in International Business Administration and Entrepreneurship with a minor and complementary studies that suits their needs and interests. Through this flexibility, the Bachelor in International Business Administration and Entrepreneurship reaches breadths and depths that are hardly reachable in more conventional study programs. For example, potential students who might be interested in business engineering might find their preferred home in IBAE. Whereas more conventional programs in business engineering either foreground the business or the engineering side, the combination of the IBAE major with the minor in Engineering makes a comprehensive, hardly beatable offer in its entirety. In turn, IBAE students who aim to extend understandings of managing sustainability or the digital transformation may combine their major with the minors in Sustainability Science or Digital Business. Leuphana's offer of minors is vast, ranging from more natural complements such as Economics to rather specialist offers such as Popular Music Studies. This array of opportunities ensures that IBAE students find a major–minor combination that they find interesting and important for making a difference.

## IBAE—A Program by Leading Experts

IBAE is run by an enthusiastic community of management and entrepreneurship scholars who are renowned experts in the field. According to data used in a recent study (Ryazanova, McNamara, & Aguinis, 2017), the Leuphana University of Lüneburg belongs to the top ten percent of business schools and universities worldwide in business administration and management in terms of research productivity. As of 2022, Leuphana is part of the range 301–400 in business administration and range 401–500 in management in the Shanghai Ranking (<http://www.shanghairanking.com>) of business schools and universities worldwide. To put this into perspective, these positions award Leuphana as number one in Lower Saxony and number 13 in Germany in these areas. This excellence generates Leuphana's commitment to and enthusiasm for offering a high-class study program in management and entrepreneurship that enables students to form the theoretical and methodological skills needed to work through today's challenges in business and society.

Taken together, IBAE provides a window into what innovative study programs in business administration and management may look like. Move forward in management education—with IBAE.


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**Cover photo:** Central Building at the Leuphana University of Lüneburg.

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ISBN 978-3-9824435-2-2