

## **Foundations of Management & Entrepreneurship**

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

**First Edition**

**Matthias Wenzel (Ed.)**

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

This 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**

*First Edition*

*Matthias Wenzel (Ed.)*

**OS INSIGHTS**



# OS INSIGHTS

*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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Matthias Wenzel





# Introduction: Toward a Business Administration for the 21st Century

*Matthias Wenzel*

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 Schwenker 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). 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 institutional theory 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 is like “business administration for the 21<sup>st</sup> century”. 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**





# **Management at Einhorn Products GmbH in Contrast to Scientific Management**

*Leonie Johanna Beese*

## **Introduction to Einhorn Products GmbH**

In 2015 W. Zeiler and P. Siefer founded this startup that sells sustainable condoms and menstruation products in a flashy design. For simplicity the company is referred to as “Einhorn” in the following. The initial idea emerged from the observation that the marketing of the few market leaders seemed outdated combined with the problem, that the production of condoms usually underlies severe environmental and social concerns. With the venture of Einhorn this problem was supposed to be targeted. Since then, the startup reinvests 50% of their profits in projects that are supposed to increase fairness and sustainability, which is documented in their annual “fairstainability” report.

In February 2015 Einhorn transmitted their first Start-Next-Campaign in which they were able to receive donations in the amount of 104.344€ in three months. This money was used to venture a GmbH and begin production. The campaign, including appearances in German TV-shows, podcasts, social media, etc. also functioned as an effective marketing strategy.

In the year 2019 the company extended their product range by adding several female hygiene products.

## **Introduction to Scientific Management**

Scientific Management is a concept by Fredrick Winston Taylor, that was developed between 1856 and 1915 and first published in “Shop Management” in 1911. Initially it was a plan to enhance business performance that Taylor installed as a business consultant. He and his acquaintances claimed that the method would increase profits, enhance productivity, eliminate class divisions and labor unrest (Nelson, 1992). His underlying assumption was that workers always try to shirk work and only achieve one third of the output they could be capable of. As reasons he identified they fear to endanger other job positions by increasing their output, deficient operating and administration systems and uneconomic process sequences based on rule-of-thumb strategies.

According to Taylor, this adds up with the congenital convenience that humans have and a lack of incentive to improve.

In order to solve this, he replaced rule-of-thumb strategies with precisely researched methods and tools that he conducted in systematic time and motion studies (Taylor, 1911). This ultimately gave this concept its name. Later on, the term “Taylorism” became common too. Furthermore, he introduced a strict division between management and labor and assigned only the most efficient employees to the specific fraction of the work they were best at. This strict hierarchy was enhanced by the advice for managers to monitor the workers productivity and value efficiency through financial incentives (Taylor, 1911).

### **Management at Einhorn Compared to Scientific Management**

First it is important to take into account that both management concepts originate in different time periods. The state of technology and science in Taylors time was far from the state it is at now, and societal norms have evolved. Since the startup is situated in an environment in a digitalized world where awareness about climate change and the importance of the employee’s wellbeing is self-evident, the demands on management for Einhorn vary from the demands Taylor was facing.

This leads to a different orientation of the economic goals. Instead of maximum prosperity, Einhorn maintains to follow the goal of having a positive ecological and social impact. According to Taylor, there was already enough awareness on the “waste of nature”, but not enough on the waste of “human resource” (Taylor, 1911).

Both types of management share their belief in harmony for different reasons. While Taylor presumed the classes are in harmony based on the shared interest in wealth (Taylor, 1922), Einhorn aims to be united by their shared goal of saving the world.

Contrary to the strict hierarchy from Taylor, Einhorn claims not to have a hierarchy and the team is supposed to manage itself by good communication. Everyone has unlimited holidays, no compulsory attendance at the office and flexible transitions between half- and full-time employment. Even the income of every employee is self- determined and discussed in an elected salary council based on a complete transparency of all the key figures.

While very efficient workers in Scientific Management are supposed to get monetary incentives (Taylor,1922), the biggest income at Einhorn may only be three times bigger than the lowest

income and is not directly influenced by the employee's efficiency. Incentives to come to the office at Einhorn are given to everyone and include free breakfasts, an unlimited personal use of company's products, massages, etc.

Furthermore, the startup integrates diverse people, instead of only choosing the most efficient workers how Taylor advised. While the startup highlights that they emphasize employees to take initiative, Taylor contrarily didn't believe in the initiative of workers (Taylor, 1922).

## **Evaluation on the Success of Scientific Management**

Scientific Management is often described as an influential managerial ideology and technology of work that opened up a new dialogue about common practices. Big companies like MC Donald's still apply an elaborate division of labor that could be inspired by Taylor (Bahnisch, 2000).

Nevertheless, Taylorism in its pure form was rarely installed and heavily criticized. At Bethlehem Steel company, where he first started to install his system beginning in 1889, he encountered a lot of resistance. After Taylor refused to moderate the change of pace, the company dismissed him in 1901. This was the starting point for Taylor to lecture on and defend his principles.

The main critique on his concept is that humans are reduced to disciplined working bodies regardless of their subjectivity and that his concept did not lead to the harmony Taylor predicted. Since the workers could only perform a marginal part of the job, they lost knowledge which further enhanced the division of classes and financial incentives were often not put into practice (Bahnisch, 2000).

## **Evaluation on the Success of Management at Einhorn**

While scientific management has been evaluated over the past century, the startup is still in the early stages of their practices. Hence, this evaluation briefly focuses on the preliminary success regarding its business goals.

In their annual "fairstainability-report", the startup presents their accomplishments with respect to the positive impact they aim for. The previous reports portray inter alia a profitable growing startup, that was able to increase its sales, minimize its carbon footprint and reduce the amount of waste it is responsible for. The team is continuously growing without a noticeable fluctuation and the new range of products sells well. As portrayed by the startup, their management seems to work

out well. In order to inspire other entrepreneurs, they provide a wide range of data about their approach and offer consulting to other businesses.

## Conclusion

Management according to Taylor and Einhorn portray two opposing approaches of management, developed in different time periods. In Scientific Management the goal is to achieve maximum efficiency for wealth with a strict hierarchy, whereas Einhorn aims for a social and environmental impact realized through a self-directed team.

Hereby both types of management illustrate a picture of men and societal values that have evolved substantially between the time they were developed. “Scientific Management” has been evaluated and criticized over the past century, while management at “Einhorn” is still in development. How successful Einhorn’s type of management will be in the long-term and to which types of businesses it could be applied to, will have to be evaluated in the future.

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# Scientific Management Within McDonald's

*Amelie Harm*

## Introduction

The history of McDonald's is one accompanied with almost constant success. Today, McDonald's is the leading global foodservice retailer and ranks according to the ISO certified Interbrand report of the *Best Global Brands 2020* on the 9<sup>th</sup> place with a brand value of almost 43 billion US-\$ (Mok, 2019; Interbrand, 2020). Due to this, it is worth examining what criteria and business concepts constitute the basis of McDonald's.

In this e-book chapter it will be analyzed to what extent scientific management, a concept developed by Frederick W. Taylor in the late 19<sup>th</sup> and early 20<sup>th</sup> century, contributed to McDonald's overwhelming success (Ritzer, 2013).

## The Concept of Scientific Management

Scientific management is a concept first propounded by Frederick W. Taylor aiming at maximizing prosperity for the employer as well as for the employee as a result of maximizing the over-all productivity of workers and machines of the establishment (Taylor, 1911 [1985]).

Taylor (1911 [1985]) thought the concept of scientific management to be an efficient alternative to the ordinary one, referred to as management of initiative and incentive as it required incentives by the manager such as rapid promotions or higher wages to obtain the initiative of the workers. He considered this type of management to be detrimental to success (The Economist, 2009) since nearly all depended upon getting the initiative of the workers which indeed was only attained in rare cases (Taylor, 1911 [1985]).

While within the scope of the management of initiative and incentive the work pace was slow due to defective management systems, old rule-of-thumb methods, and soldiering, the workers' attempt to do work as slowly as possible for the longest amount of time, scientific management offered general principles resulting in almost doubling the output of all workers and machines (Taylor, 1911 [1985]).

These principles included the application of scientific methods to the working process, the scientific selection of workers and their education, the strong and harmonious cooperation between management and workers who were thought to have the same interests as well as an equal division of labor and responsibility between them, thus leading to an enormous efficiency increase when applied altogether and combined with the best initiative of every worker (Taylor, 1911 [1985]).

## **McDonald's**

The success story of McDonald's is based upon the principles of scientific management applied to the fast-food-gastronomy. What in 1937 started off as a moderate drive-in restaurant founded by the brothers Richard and Maurice McDonald soon turned into a successful restaurant undercutting the competition by 50% due to a change in direction in 1948 by focusing on the concepts of standardization and flow production (Schneider, 2015).

The overwhelming success of this new gastronomical concept based on efficiency also attracted the interest of Ray Kroc, a milkshake mixer salesman, who thought of it as being the most astonishing he had ever seen. Recognizing great potential in granting franchise licenses, Kroc joined the McDonald brothers and founded the McDonald's System, Inc. in 1955. Even though the franchising turned out to be very successful, Kroc's profit was relatively low due to restrictive contracts with Richard and Maurice McDonald that in 1961 he decided to pay the brothers off with 2.7 million US-\$. Ray Kroc, then, expanded further by buying and renting estates, successful advertisement and perfecting the application of scientific management on a national and later also international level (Schneider, 2015).

Today, McDonald's is the largest fast-food chain in the world with more than 35,000 restaurants in over 120 countries serving around 60 million people on a daily basis (Schneider, 2015).

## **Implementation of Scientific Management in McDonald's**

As the four principles of scientific management play a key role in the branches of McDonald's, the focus will be laid upon them in the following analysis.

Taylor (1911 [1985]) was convinced of the existence of the one best way to perform a job which could only be identified "through a scientific study and analysis of all of the methods and implements in use, together with accurate, minute, motion and time study" (p. 25).

According to Schneider (2015), legend has it that the McDonald brothers applied Taylor's principle by studying their employees' moves on a tennis court on which the measurements of the kitchen had been drawn, thus optimizing its layout in the most efficient way. The processes within McDonald's restaurants are further enhanced by the division of labor into many specialized work steps permitting an increased efficiency and the employment of unskilled workers as the work steps are monotonous and do not require a lot of thinking (Schneider, 2015). As a result, in branches of McDonald's the customer orders pass through an assembly line-like process during which the corresponding workers, from the Counter-Man to the Fry-Man, execute their routine job in the most efficient way, thus completing the orders in the one best way. Constantly thriving for an increasing efficiency, McDonald's recently came up with a system allowing to split the process of placing an order from its pick-up. By this means costumers receive a number as soon as their order is placed, either at the cash register or the "Easy Order" terminals, and can pick the order up when their number is shown on a screen, thus allowing to reduce the waiting period of the costumers as well as food waste (Schneider, 2015).

Taylor's (1911 [1985]) second principle focuses on the scientific selection and training of the worker. Therefore, at McDonald's every job is performed by the best suitable worker who is trained to use standardized tools and methods in order to ensure that the work is always done the same and most efficient way (Ritzer, 2013). The basis for this standardization is given by the 600-page *Operations and Training Manual* that documents all procedures in a McDonald's restaurant from the cooking time of fries to the set phrases used at the cash register. In order to train the workers in keeping the workflow constant, the kitchen machines emit beeps as soon as they are done, thus dictating a certain production cycle. Therefore, the working process at McDonald's resembles an assembly line work with a training time of around four weeks (Schneider, 2015).

However, having given detailed instructions of how the job should be done, the need for a "heartily" (Taylor, 1911 [1985], p. 36) cooperation between the worker and the management arises to ascertain that the work is done "in accordance with the principles of the science which has [*sic*] been developed" (Taylor, 1911 [1985], p. 36). According to Schneider (2015), this compliance with the work requirements at McDonald's is controlled by three means. First of all, depersonalized control is exerted by limiting the scope of action of every worker by the exact description of the work in the *Operations and Training Manual* as well as the production cycle dictated by the kitchen machines. Secondly, personalized control is carried out by higher-ranking



staffs such as shift supervisors in order to check the normal crew's compliance with the working standards. Lastly, the work at McDonald's is constantly controlled by monitoring which can either be internal, through instant information about the expected daily sales and the needed employees, or external, through unheralded visit by the district manager (Schneider, 2015). Even though, Taylor (1911 [1985]) outlined the need of a "heartily" (p. 36) cooperation, the three measures put into place to control the employees at McDonald do not forward such a "close, intimate, personal cooperation" (p. 26), as they rather focus on a strict and direct control. Therefore, Taylor's third principle is only partly fulfilled in the working concept of McDonald's.

In his fourth principle, Taylor (1911 [1985]) highlighted the need for an "almost equal division of the work and the responsibility between the management and the workmen" (p. 37). This division allows the management to scientifically plan ahead before instructing the workers, best suited to executing the job. Therefore, the workers do not only receive detailed information about what should be done, but also how it is to be done in a prescribed period of time (Taylor, 1911 [1985]). According to Schneider (2015), McDonald's is the largest company using system catering methods which are characterized by this clear division of the instructing management with a high know-how and the executing workers with a low know-how.

Even though the pay system plays a subordinate role in scientific management, the idea of special incentives still persists (Ritzer, 2013). Hence, Taylor (1911 [1985]) suggests giving an additional pay to the workers who succeeded in executing the task correctly within the prescribed period of time in order to really obtain their best initiative. Within McDonald's a system of incentives and disincentives is used to reward the employees by giving out awards to those who behave in accordance with the rules and punish those who do not by ultimately dismissing them (Ritzer, 2013).

All in all, it is the combination of the four principles of scientific management and the best initiative of every worker that heavily contributes to McDonald's success on the market as the leading fast-food chain in the world (Taylor, 1911 [1985]; Schneider, 2015).

## **Conclusion**

To recapitulate it can be said that the principles of scientific management by Frederick W. Taylor were a strongly contributing factor in paving McDonald's road to success. Taylor's (1911 [1985])

goal of maximizing prosperity by maximizing the over-all-productivity of the worker and machines also is one of the guiding ideas within the concept of McDonald's and is one of the main reasons for its leading position within the fast-food market. Even though, the company is not only based on invariably one concept and also shows minor deviations from the four principles by Taylor, it is evident that the concept of scientific management combined with the best initiative of every worker constitutes one of the basis of McDonald's.

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# Principles of Scientific Management Applied to an Electric Motor Plant

*Lena Marie Hegemann*

## Introduction

The investigated company is a globally operating, independent, and a family-owned german company that focuses on domestic appliances. However, the focus in this article lies on a specific plant that is one of the biggest producers and developers for their electric motors and pumps.

The production is divided into several departments such as the small series, where workers work individually (e.g. Producing small quantities), and the large series, where workers work on a highly automated assembly line for one specific product (e.g., a pump or a fan). Each assembly line ends with a quality check, a product that lacks quality will be repaired, put back into assembly, or will be disassembled and reused.

This article will take a closer look at the plant's production quarters and its appliance of Scientific Management by Frederick Taylor (1911). Taylors theory highly focuses on efficiency and productivity, which shall be gained by three major principles: 1. Science not rule of thumb; 2. Scientific selection of labour forces; 3. Collaboration between management and workers. (Turan, 2015)

Due to company rules, the companies name can not be made public, the author gathered all necessary information about the plant by conducting interviews with managers and workers, the company's website, and by gaining an insight while working at the plant for a couple of months.

## Principles of Scientific Management

### *1st Principle: Select Methods Based on Science*

Taylor (1911) believes that to increase productivity, the best method for each single production step must be found and applied. To find the most efficient methods, studies should be conducted. These studies condensate the knowledge into simple rules, laws and they get rid of all false, slow, and useless steps and movements. In other words, Taylor implies that Managers should develop a science for each element and every step.

Each line is carefully constructed and continuously improved by the development team and then designed by an external supplier who takes the working process, cost efficiency, spatial constraints and demand into account and conducts a methods time management analysis (MTM Analysis) to find the most effective but also manageable methods. Workers are supposed to work at the plant for several years, therefore the methods need to regard productivity and workers endurance. The most effective methods are taught to the new employee and the team leader or shift manager supervises the worker. While lines with high demand are usually fully automated, lines that need to be flexible or with low demand are less automated. Human workers usually cost more, are slower, and make mistakes but they are flexible and can work at several stations.

One specific example to increase productivity and worker's endurance is a new shift plan. Depending on the station and working hours (35,37 or 40 hours per week) workers work a special shift plan with repetitions of the nightshift of three days maximum. Hence the working hours are mixed, helping the biorhythm adapt to the changes and increasing a healthy work-life balance. (Langhoff & Satzer, 2017)

### *2nd Principle: Scientific Selection of Labour Forces*

“[...] the most important object of both the workmen and the management should be the training and development of each individual in the establishment so that he can do (at his fastest pace and with the maximum of efficiency) the highest class of work for which his natural abilities fit him.” (Frederick Taylor, 1911, P.2)

Rather than letting the employee chose his workplace or assigning him/her randomly, managers should do a careful selection of fitted workers and eliminate workers who are unable to adopt the most efficient methods or have the wrong mindset. Taylor (1911) implies that one has to train a competent worker instead of hiring them externally. This training also leads to workers being replaceable. In order to keep and motivate the most fitted workers, managers are supposed to create good working conditions, pay higher wages but also monitor the workers and their progress.

The selection at the plant starts with the first interview by the staff supervisor interviews, he/she will do a preselection, based on qualities and the duration of employment. Most workers are so-called “contract workers” they are hired from an external company and only if they prove themselves, they will be hired by the plant directly and will enjoy the company’s social benefits.

That way only reliable individuals are picked. A coworker teaches the necessary steps for each station while being monitored by either the Shift manager, Meister (Leading craftsmen), or Team leader. Once the training is complete (lasting from 2-3 days to weeks depending on the station and the skills needed) the employee starts working on the assembly line or their individual work. Each assembly line has screens that show the Geff (efficiency of the line) including the output, quality, and error rate. If one number is too high or low one of the managers will check what the problem is, if an employee does mistakes repeatedly, they will either be trained again, moved to an easier workplace, or in the worst-case scenario (and under certain conditions) be dismissed. Workers can apply to new workplaces or EOL- checks (End of the line checks) if they are fitted to do so and will be selected and trained for the higher position. That way, workers are always capable to do their assigned work and they are motivated because they are able to rise in their position and get paid more. Taylor's (1911) principle of assigning workers based on strength is applied at the plant but due to certain laws and ethics, the principle of removing unskilled workers is not fully applied.

### *3rd Principle: Collaboration between Management and Workers*

A good relationship between the management and the workforce should secure maximum prosperity for both, the employee and the employer. Taylor (1911) implies that both parties have the same fundamental interest, but he also supports a clear hierarchy. The management should develop the science, select, train, monitor and guide the workers. and partly take responsibility

In other words, the management should take on more responsibility for the outcome and do all the cognitive work while the worker should only do as he/she is told. If the worker succeeds in doing his task within time constraints and with good quality, he or she is supposed to be rewarded with a higher wage.

The hierarchy at the plant's production department is clearly divided: (Langhoff & Satzer, 2017)

1. CEOs of the company
2. Managing director (Head of both the development and production, sets long-term targets)
3. Director of the production (works with development to realize new products and increase efficiency)
4. Head of craft (Checks machines, helps to plan new assembly lines, sets short-term targets)
5. Shift Manager (Creates work plans, checks on workers)

6. Team leader (Trains workers, checks quality)
7. Worker

As scientific management implies, that hierarchy allows the worker to simply do his/her work while the managers plan each step and day and take on the responsibility. Every individual has someone to guide them and set out clear rules. The Director of the production and the shift manager set a goal for each day, depending on the demand for one specific product and the workers strive to reach that goal. Some individual workplaces pay the worker according to each finished product, that way the management achieves their goal, and the employee is paid accordingly.

## **Conclusion**

The main principles of scientific management are applied, at least in theory. While the management carefully plans every step and monitors workers, the workers still have individual ways of doing one step and sometimes, as Frederick Taylor calls it “soldier” to lower expectations from the management and development team and make the work less stressful for themselves and coworkers. (Taylor, 1911, P.4) Especially during nightshifts (from 10 pm till 6 am), when neither the Managers nor the leading craftsmen are at the production site this behavior tends to happen. I believe that this is a rather natural behavior, once the closer monitoring stops workers have more freedom to apply individuality. Strict Scientific management is often criticized for dehumanization and most workers probably agree. While the management is very supportive, the work itself is very monotone and the thinking progress for workers is missing completely. Nevertheless, most people enjoy working at the plant due to relatively high wages, good working conditions, and the company’s social benefits. Additionally, the productivity at the plant is quite high due to high automatization, skilled workers, methods based on science, and a skilled management. To sum it all up, the main theory of Scientific management is applied but the theory does slightly differ from reality.

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# A Behavioral Theory of the Firm: Concept and Case

*Nell Martens*

## Concept of the Behavioral Theory of the Firm

*“In its classic form, economic theory is simply a language designed to provide a systematic framework within which to analyze economic problems” (Cyert & March, 1963, p. 114).*

The Behavioral Theory of the Firm is an alternative approach to the traditional, economic theory of the firm with its primary focus on profit-maximization. Generally defined, the behavioral theory of the firm (abbreviated as BTF) emphasizes collective decision making and careful organization within and between certain subgroups of an organization. The main focus of the BTF is the insurance of satisfaction above profit - maximization.

Originating from the title of the book first published in 1963 by Richard Cyert and James March, “A Behavioral Theory of the Firm” managed to establish itself as one of the most dominant theories within management and entrepreneurship. It should be noted beforehand that Cyert and March did not discard all aspects of the traditional theory of the firm. In contrary, they used the principles as a basis to improve the already existing by shifting the focus on other aspects more closely related to the behavior of an organization and its members.

As previously mentioned, and also depicted from the title of the book, behavior is a fundamental component of the theory. Even though system processes within a company can surely often be described as autonomous (of course depending on size and construct), the essence behind it, the humanity, is often forgotten. The significance of shareholders, entrepreneurs, workers or any type of employee is inevitable. The concept behind this is simple: the way we behave has an impact on every aspect of our lives; career, relationships etcetera. The same principles apply to organizations: The way they present themselves, make decisions or handle uncertainties is going to have an impact on their sustainability because, philosophically speaking, **the people are the company**. On that account, any theory has characteristics and goals that serve as guidelines. Within the traditional theory of the firm, the most potent aspect is the urge to **maximize profit** by creating a gap between revenue and cost. The traditional approach is comparable to a “**blackbox**” that works with an input - output mechanism (Andersson & Johansson, 2018). To achieve **perfect knowledge** is key in this optimizing theory. Restructured by Cyert and March, characteristics and goals of the

behavioral theory of the firm firstly include basic concepts such as **satisfaction, division into subgroups, low hierarchy, basic aspects of humanity and decision making** (PBAE, 2020). More complex characteristics mentioned in the book itself include **quasi resolution of conflict, uncertainty avoidance, problemistic search and organizational learning** (Cyert & March, 1963). Before evaluating the characteristics, it is of uttermost importance to shine a light on an organization's biggest requirement: goals.

### *Goals as an Essence*

Foundations of any theory as well as the behavioral theory of the firm are goals. Goals determine how to act and behave. The prioritizing of such is extremely essential as well as knowing how to cope when the goals cannot be met. In "The behavioral theory of the firm" Cyert and March mentioned organizational goals. Within these the focus lies on two aspects (1) "the dimensions of [the] goals" and (2) "the aspiration level" of goals (Cyert & March, 1963, p. 115). The dimensions of goals emphasize that different perspectives within units and subunits concretize the priorities in each division. Therefore, what is presented as a company's goals can be the result of subdivisions deciding to set these desirable outcomes. As for the aspiration level of goals, the objective lies in shifting the firm's focus on the evaluation of past goals, performances within the market, and internal performances. The consequence of this is learning from past outcomes and improving the goal establishment process.

### *Basic Attributes of the Behavioral Theory of the Firm*

Most deviant from the traditional approach is **satisfaction**. Company's goals are, preferably, meant to be met. The objective of the behavioral theory isn't to maximize profit but to satisfy results. The accentuation lies on maintaining the company and satisfying all stakeholders such as employees or customers. With achieving only the necessary, the organization is able to distribute their resources to various different aspects in the organizational whole that might be essential for future development.

The firm is a **coalition of groups**: According to Cyert and March (1963) each individual is part of a group. These groups participate in setting goals and making decisions. Instead of the "mono-decision entity" (PBAE, 2020) of the traditional theory of the firm, the goal is to gain access to multiple perspectives within the company. This is achieved by dividing employees into their own

units. Within this group they can address points of conflict, discuss different interests, and demands as well as compromising within their line of work. Furthermore, it should be noted, that every group has its own priorities, demands, needs, and goals. Due to reliance on other members of the firm, the **hierarchy is kept fairly low** as there is not one entity that solely holds the decision-making power. Moreover, **basic aspects of humanity** are highlighted in forms of communication, empathy, and learning. Letting humans be human creates a safer environment and more contentment throughout the company. **Decision making** can be understood in the following way: “We assume that organizations make decisions by solving a series of problems; each problem is solved as it arises; the organization then waits for another problem to appear.” (Cyert & March, 1963, p. 119). The complexity of this however often makes it a difficult task to pursue. Mistakes can be made, and so they should. In the following, you will be slightly more enlightened on what is necessary to make an adequate decision within the firm. The more complex characteristics of the behavioral theory of the firm emphasize organizational thinking and decision making based on explicit behavior.

### *Quasi Resolution of Conflict*

Each individual has a valid opinion that is not necessarily going to be shared by every other member of the division or organization. This can cause conflict when searching for objective goals or compromises and is therefore very time consuming. In the behavioral theory of the firm, the aim is to resolve conflict to the best of the given possibilities. This is achieved by accepting the following steps as guidelines: (1) Goals are independent constraints: “We will focus on the constraints that are essential, continuous and operative” (2) Local rationality: Every subunit deals with their set of problems and limited goals - division of problem solving. (3) Acceptable-level decision rules: “Consistency requires that local optimization by a series of independent decision centers result in overall optimization” (4) Sequential attention to goals: Solving one problem at a time (Cyert & March, 1963, p. 117/18).

### *Uncertainty Avoidance*

A firm is always accompanied by a pool of internal and external uncertainties due to its existing dependence on resources and the environment. An organization may be able to set goals and proceed at fulfilling these but has no immediate control over how suppliers, shareholders or

competitors will act or react at any given time. To avoid detriment, the organization focusses on “short-run reaction and short run feedback” (Cyert & March, 1963, p. 119). In other words, targets are not set too far ahead to enable quick reaction when changes occur. Furthermore, the less dependent the goals are on other actors or circumstances, the more likely it is to succeed even with long-run goals. In the behavioral approach predictions are made only if there is solid evidence of future events based on past performances, structures and systems of the environment. Therefore, being adaptable is an important mean to deal with any slight uncertainties that might arise. Lastly, internal rules or plans establish guidelines that also help avoid uncertainty.

### *Problemistic Search*

“In our models we assume that search, like decision making, is problem-oriented.” (Cyert & March, 1963, p.121) The search itself is categorized into three different types, the two most prominent of these are as follows: (1) Motivated search: When a goal hasn’t been met, the reasons are evaluated and a search is conducted until the problem has been solved. Two possible outcomes of this are either finding alternatives that satisfice the goal or a revision of the goal itself that therefore might have to be altered to solve the problem. (2) Simple minded search: There are two rules for the simple-minded search: Firstly, “search in the neighborhood of the problem symptom” and secondly, “search in the neighborhood of the current alternatives” (Cyert & March, 1963, p.121).

### *Organizational Learning*

Learning as a process within the firm is an extremely valid aspect as it results in improvement. Adaptive behavior plays a big role as the company uses its employees as instruments of adaptive learning and decision making. Cyert and March claim that even though it might be naive to claim that a company can learn equally as well as the individual, there is a certain truth to that statement. There are three major phases of the decision-making process: (1) Adaption of goals: There are many facets that flow into the adaption of goals, such as (financial) resources, time, a company’s sensitivity, and its competitors but most validly its experience. If experience shows that a goal can never be met, it shall be altered. (2) Adaption in attention rules: Paying attention and prioritizing goals. Establishing the competition’s means of operation. (3) Adaption in search rules: “If we assume that search is problem-oriented, we must also assume that search rules change.”

(Cyert & March, 1963, p.125). Therefore, if search strategies emerge to be beneficial, they will be consistently used. If not, they are replaced. In the following the principles of the BTF will be applied to a case.

## Case Prizeotel: The Economy Design Hotel

Prizeotel is a largely growing hotel chain with its first hotel opening in 2008 in Bremen, Germany. Keeping the “p” small and leaving out the “h” in the brand name is the perfect example for how Marco Nussbaum and his team always strive to set themselves apart from the hotel chain norms. Following the success back in 2008, prizeotel has managed to establish six hotels by current status (2020) and has planned to open another twelve by 2022, all around Europe. In December 2020 Focus magazine awarded prizeotel as the “top-employer of the German middle class 2021 in the category ‘Gastronomy, Hotel and Tourism’” (prizeotel Instagram, 2020).

The concept of the hotel chain itself lies in the title: a design hotel to affordable prices. Starting at 59 euros a night, prizeotel offers a timeless, minimalistic design that was created by New York designer Karim Rashid (Red Dot Prize 2010). Primarily habited by business guests, it also attracts many couples of various ages. To achieve this there are 5 principles to take into consideration. Prizeotel titles it as “Rather 5bs than 5 stars” (prizeotel, 28. Feb.2018). The 5bs stand for booking, bathroom, breakfast, bed and be happy. The aim is to satisfy the guest’s needs or wishes, however in a slightly different approach than is the norm of typical hotel establishments. In the following, principles of the behavioral theory of the firm can be found within the organization of prizeotel and will therefore be highlighted for your understanding.

Beginning with the aspect of **satisficing**, this principle of the BTF is straight forwardly noticeable in the company’s motto: “Rather 5bs than 5 stars”. Discarding the means of profit maximization within the hotel industry, the achievement of stars, prizeotel chooses to focus on features that will satisfy their guests rather than exceeding every stakeholder’s expectation including the maximization of profits. Moreover, as an employer, prizeotel also tries to assure the team’s satisfaction and health by donating monthly transport tickets, gym memberships and healthcare benefits (status 2020). The concept behind this is brilliant: parts of the excess resources that are available, through organizational slack for example, flows into the team to satisfy their needs and therefore increase productivity and outcome. Moreover, satisfied employees often result in satisfied customers.

The division into subgroups allows multiple perspectives and joint forces to maximize outcome for goal realization (careful: not profit maximization!). Responsibilities are evenly distributed throughout the company. The subgroups all have their own priorities and targets, however within the hotel, the individuals of the subgroups consistently exchange advice or knowledge. Furthermore, within the walls of any prizeotel, the message conveyed is that every employee is valuable, and hierarchies are for stiff environments. Unlike in most other hotels, there are **low hierarchies**. All the following divisions regularly interact with each other on a mutual level: Front desk, F&B (food and beverage), housekeeping, sales, maintenance, marketing, reservation, accounting, kitchen, bar, billing, controlling and the hotel team captain. Within the hotel, the team captain has the most managerial responsibilities and is considered the go-to for all subdivisions that are present in the hotel. Moreover, he or she acts as a liaison between the administrative and the operational groups of the organization, which emphasizes the importance of communication. The CEO also insists on the discard of the formal “you” as known in the German language, even towards guests. This underlines the **humanity criteria** present at prizeotel. Apart from the informal you, the hotel is a safe space for guests and employees. Individuality is celebrated; sex, age, color, or background is irrelevant. Guests are often considered friends. First names, free beers and activity recommendations are on the daily agenda. With a specifically designed Facebook Messenger, the guest can communicate with the front desk about anything without having to leave his/her room. **Decision making** is mostly individualized when it comes to minor issues such as the purchase of new office supplies, beverages, or the overcoming of occurring problems. Every member of a subgroup has the same authority to make an appropriate decision. (The hotel team captain however always reviews the decision). Furthermore, the employee mostly manages his or her time him or herself and is free to decide when to take breaks. **Complex decisions** concerning the plenum are discussed in monthly meetings. The criticism towards the BTF however is justified as it can consume a copious amount of time when problems are complex. Sometimes, the **resolution of conflict** or decision - making often requires **local rationality**. For example, by protocol, if a guest’s behavior is discriminative, unacceptable, or disobedient of the hotel rules, the front desk employees are authorized to relegate this guest from staying the night. However, before this occurs, they evaluate the situation and analyze to make a valid decision; discussing a compromise is more likely than a direct banishment. In the example of a guest violating a rule that is embedded in the terms of service such as smoking in the room, the front desk employee must

follow a certain protocol of reporting the guest to the sales and billing division where the consequences are revised. Such protocols or rules are rarely changed to ensure correct procedures. The **sequential attention to goals** is supported by digital checklists. To start a new checklist, the first one should have been completed. This functions only as an additional support to not restrict the employees in their doing but fosters short – run accomplishments and ensures the achievement of daily goals.

**Avoiding uncertainties** within the hotel industry isn't always simple. With its “no pay- no stay” policy before check-in, prizeotel manages to avoid later conflicts with non-paying guests. Within the course of a day the basic goals of the hotel are met: The focus lies on short- run goals as the environment is often unpredictable and tasks are often time-dependent (for example preparing for arriving guests). Softwares help predict certain facets, but this usually doesn't conclude enough information to make solid predictions about specific outcomes. Furthermore, all employees of the company are informed of daily events by their own teammates using professional chat rooms. This also makes it easier for following shifts to quickly gain knowledge about previous happenings. Prizeotel workers are very flexible when it comes to adaptability. In a difficult to predict environment this is a very useful asset. For example, if the entire housekeeping division was to get infected with Covid-19 front desk workers would trade shifts to act as housekeepers as they are also schooled and adaptable enough to be able to help out in multiple divisions if necessary. The hotel shutting down or the use of excess resources posing uncertain risks has therefore been avoided. Starting in January 2020 when the new “no - cash policy” for all prizeotels was introduced, front desk employees encountered many annoyed guests. Adapting motivated search, they came up with a list of arguments to present to reduce the guest's confusion without becoming unprofessional. These arguments were listed, printed out and handed to every member. Preparing such a list resolved the problem as employees had specific measures to go by.

There is hardly a better example for **organizational learning** than the effects of the Covid-19 pandemic. Especially for the hotel industry - everything changed including **goals, attention rules and search rules**. New environmental circumstances result in changes and alterations. In the example of prizeotel, the new primary goal that emerged was finding a suitable hygiene concept approved by the government so the doors would remain open. Finding a suitable concept however took many attempts and practice. The rules were changed very frequently. To keep the buffet running, they firstly decided that every guest had to wear their own mask and gloves provided by



the hotel. However, this wasn't only expensive in long-term, but also didn't quite match up to the company's sustainability goal of reducing plastic. Instead, the company agreed on using the already existing resources, the workers, to take over the buffet and rather serve as waiters; serving the guests whatever they pointed out at the buffet. The concept worked and was continued for quite some time. Another aspect of organizational learning is the learning itself. The teammates within prizeotel teach each other. Exemplary, if you start at the reception without having any previous knowledge or experience, your teammates will assist you in learning how to do the job properly. Aside from an introduction course called the "Onboarding" you are left to the simple task of "learning by doing".

In conclusion, prizeotel adapted many of the principles from the Behavioral Theory of the Firm created by Cyert and March (1963). This theory is extremely complex and often causes plenty of confusion about guidelines and rules. The main characteristics however, decision-making and organization(-al learning) with the goal of satisfaction are of uttermost importance and can be recognized within this company. The hotel industry embodies the perfect example of how behavioral principles can be beneficially adapted in a humane, complex, yet uncertain context and environment.

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# Peace, Love and Identity: Human Relations Movement Extended

*Merle Paulick*

## Introduction

Many companies are currently rethinking and restructuring their Human Resources Management due to frequent calls for a better work-life-balance for their employees. Criteria defining employees' motivation and wellbeing were manifested in the Human Relations Movement. This book chapter shows how the ice cream company Ben & Jerry's relates to these criteria. Furthermore, a critical reflection on whether these criteria are still sufficient is included.

## Human Relations Movement

The Human Relations Movement in Behavioral school proclaims that employees' commitment increases due to other factors than just income (Sarachek, 1968). While previous theories defined salary as the main reason for motivation, Human Relations Movement focusses on social aspects and employees' welfare. This being achieved through communication, team work, non-hierarchical leadership and in general measures being taken in order to increase wellbeing (Kompier, 2006).

## Ben & Jerry's

The ice creamery was founded in 1978 by Ben Cohen and Jerry Greenfield. The headquarters are located in Vermont. Since 2000 it is a subsidiary of the Anglo-Dutch multi-national consumer goods conglomerate Unilever (Bayle-Cordier et al., 2012). Worldwide, B&J's is known for its creative ice cream flavors often using pop cultural references.

While many companies recently adapt their Human Resource Management as a consequence of a paradigm shift in working culture, B&J's always had an elaborated approach on this. In scientific literature this is referred to as the *double-bottom-line* meaning that profit maximization as well as people's needs and social aspects are guaranteed in a business (Page & Katz, 2012).

In order to demonstrate working conditions at B&J's, scientific papers as well as information published on the company's website are taken into consideration.

### *Expert Groups*

As defined in the Human Relations Movement, also B&J's builds on small expert groups and teamwork. These different outcomes contribute to the company's development (Bayle-Cordier et al., 2012). Furthermore, the so-called "Joy Gang" is a rather special expert group existing within the company whose purpose is to create a joyful and relaxing atmosphere, according to Senior People Mission Manager Jane Goetschuis (as cited in Shapiro, 2017).

### *Wellbeing*

In order to maintain or improve the employees' wellbeing, Ben and Jerry's headquarters offer a napping room for the sake of creating a safe space for relaxation. Furthermore, employees are encouraged to take breaks in order to facilitate a less stressful working day. Additionally, many employees bring their dogs with them to work leading to a friendly atmosphere as pets also have a positive impact on stress reduction and thereby mental health. Subsequently, as a subordinate argument for increasing wellbeing, employees are guaranteed three free pins of B&J's ice cream per day (B&J's website).

### *Income*

As mentioned in the Human Relations Movement, income is not the major point in employees' motivation. However, in order to make a living it is irrevocably necessary. Earlier in the company's history, there was a rule defining that the highest income given to employees should not be more than five times the lowest one (Bayle-Cordier et al., 2012). This also directly pinned to the company's understanding of social equality and justice.

### *Leadership and Communication*

In the article "Leadership, Social Responsibility, and Projected Identity: The Ben & Jerry's Story", the authors Bayle-Cordier et al. (2012) elaborate on the leadership development within Ben & Jerry's during the company's history. Result being that leadership and management and therefore concentration on different parts of the company varied by changing CEOs. However, in the annually published CEO letters, all employees and stakeholders are referred to as "family" or "folks" creating a strong feeling of community, cohesion and equality among all (Bayle-Cordier

et al., 2012, p. 21). In general, leadership within Ben & Jerry's builds on employees' responsibility as they are described as important actors to carry on the company's values and mission.

## **Critical Reflection upon the Concept and the Case**

As elaborated under the previous headings, Ben & Jerry's corresponds to the criteria defined by the Human Relations Movement. However, there are other important factors to consider in order to properly reflect upon the company and the theory.

### *Stakeholders*

Not only employees but also other stakeholders should be taken into consideration as they contribute to the company's outcomes too. For B&J's, other stakeholders than the employees are, among others, the suppliers, especially from the milk industry. The *Caring Diary* is a program focusing on helping farmers to grow their family businesses sustainably (B&J's website). Thus, it becomes clear that in a company with multiple and complex production processes, all stakeholders must be taken into consideration. Not only should criteria such as defined through the Human Relations Movement be implemented for employees but also for the suppliers to appreciate their impact on the company's development.

### *Unilever Acquisition*

In 2000, Ben and Jerry's was sold to the Anglo-Dutch consumer goods multinational Unilever due to former weaknesses to meet shareholders' financial interests (Page & Katz, 2012). Due to the acquisition, the rule that the highest income should not be more than five times as high as the lowest was cancelled out (Bayle-Cordier et al., 2012). Additionally, it came to dismissals and closing of fabrics in order to equalize Ben & Jerry's with Unilever's "profitability [...] standards" (Bayle-Cordier et al., 2012, p. 28). This led to insecurity among employees and suppliers as they feared for their jobs and the loss of Ben & Jerry's identity which is also defined through its working culture. However, it was stated that such an acquisition was needed to conquer financial and logistical problems and thus maintain the company's existence which otherwise would have had consequences for employees too (Bayle-Cordier et al., 2012).

### *Social Mission, Ethics and Corporate Identity*

When founding their ice creamery in 1978, Cohen and Greenfield's initial goal was to gain profit in order to be able to make a living. Ben Cohen, however, started to feel uncomfortable and feared to be "just a business, like all others, [that] exploits its workers and the community" (as cited in Page & Katz, 2012, p. 40). This is why the company developed its social mission. It consists of the three components social, economic and product and thereby strongly resembles the sustainability triangle (social, economic and ecological). This mission includes B&J's approaches towards sustainability and social equality. For instance, the company releases annual *Social and Environmental Reports*, processes fair trade products, is politically active for human rights and the LGBTQ+ community and takes actions in reducing its own CO2 emissions (B&J's website). (Many other projects and approaches can be found on B&J's website.) Thus, the overall intention is, as former CEO Walt Freese put it, "to make Ben and Jerry's at better company – and [thereby] the world a better place" (2006 CEO letter, cited in Bayle-Cordier et al., 2012, p. 17)

Hence, one can see that the employees' motivation does not only build on concrete Human Resource Management decisions but also strongly on whether one can identify with the company's philosophy and values. This corporate identity can change (c.f. different goals in leadership due to changing CEOs) but overall, it also defines the individual employee's identity (Gioia et al., 2000).

### **Conclusion**

Ben and Jerry's does not and did never manage their employees under the perception that only their income was what motivates them. Criteria as defined in the Human Relations Movement are applied which can be verified through different examples.

Moreover, Ben & Jerry's shows this does not only apply to employees but also other stakeholders such as suppliers as they inevitably contribute to the company's profit.

Furthermore, not only concrete working conditions are relevant to employees but also the company's corporate identity. This being especially emphasised in times of emerging wicked problems such as global warming and social inequality. The company that one works in strongly defines one's identity. Being able to identify with the company's mission and ethics is determining in order to increase motivation among employees to work towards these goals. Regarding Ben & Jerry's, this extension of the Human Relations Movement criteria is defined by its social mission.

Understanding this power of unity by shaping a common identity through similar values and beliefs is crucial for a company when aiming at motivating its employees. In addition, this also demonstrates boundaries within management and entrepreneurship as not only style and quality but moreover agenda and intention can decide upon success or failure.

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## **II. Creative Destruction**





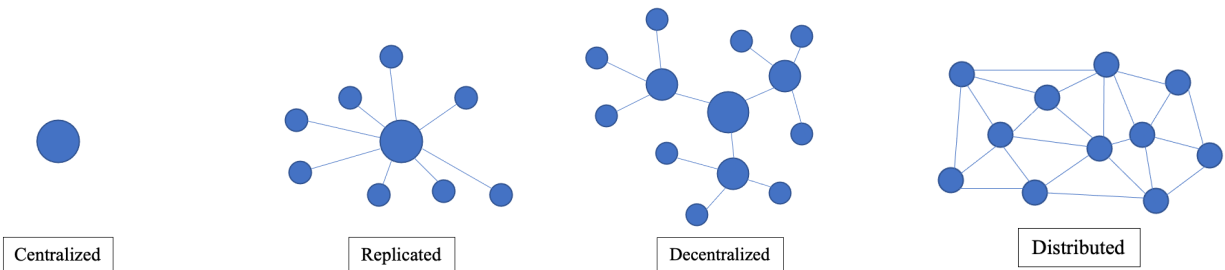
# Blockchain Technology at Siemens AG: Aiming at a Better Future

*Mats Beckmann*

## Introduction: Data Storage

In the course of the ongoing process of digitalization, data has become one of the most valuable goods on earth. In an academic context, it represents units of information that can be used in almost any field, such as scientific research, business management, finance, governance, and virtually every other form of human organizational activity. Therefore, data is often referred to as the oil of our digital economy. As one can imagine, there are countless ways of using the data, once being in possession of it (data processing). However, to be able to do so, there must be a possibility of storing the data and making it accessible to the user/s (data storage). Generally speaking, this can be broken down to four consecutive, fundamental methods.

### *Different Types of Data Storage*



*Based on Million (2019, p. 16)*

### First Approach: Centralized

The traditional approach to data storage used to be central, meaning there is only one central location (server<sup>1</sup>) which is in control of all data currently stored in the system. This indicates that all local entities<sup>2</sup> need to be connected to the central server in order to write or receive data. Consequently, everything depends on that server: Once it shuts down, the whole system<sup>3</sup> does. (Million, 2019) Moreover, it is not very secure, since one has to trust a server that is usually quite vulnerable to attempts of data manipulation.

## **Second Approach: Replicated**

In this case, the centralized approach is being extended through a replication of the central database<sup>4</sup>, located in the local entities of the system. Thus, the central storage is still active, while the operational availability of the system significantly increases. (Million, 2019)

## **Third Approach: Decentralized**

By now, we are not talking about a central server anymore, but rather a system of nodes<sup>5</sup> which are connected to the local entities. The nodes are able to store and process data all by themselves and only synchronize with the central server at specific time intervals. (Million, 2019) In other words: Local operational availability combined with the possibility of central data evaluation.

## **Fourth Approach: Distributed**

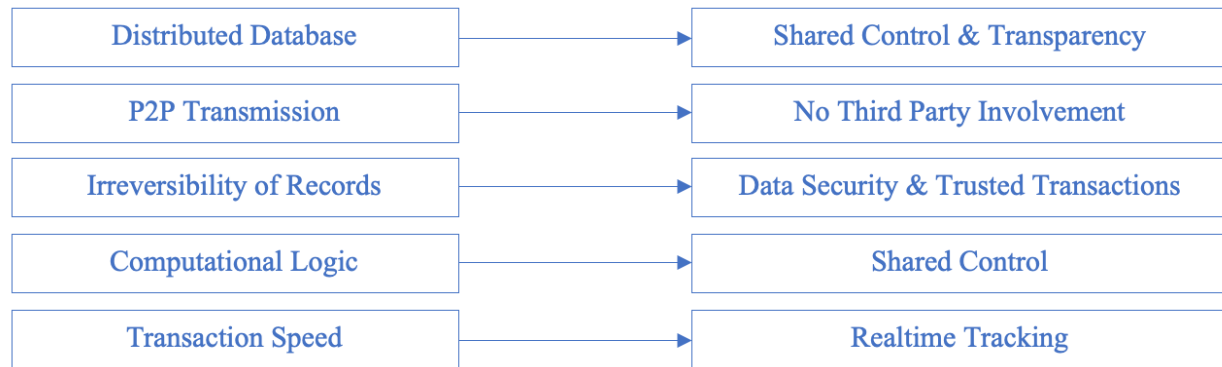
The so-called 'Distributed Ledger Technology' (DLT) are a type of database that is spread across multiple websites, countries or institutions. (Treiblmaier & Clohessy, 2020) It is based on intelligent nodes which are able to not only write data, but also validate the data that is supposed to be written into the database. (Million, 2019) Records in that database are stored one after another in a continuous ledger<sup>6</sup>, rather than sorted into blocks, which marks the main difference to the term 'Blockchain'. However, the records can only be added when the participants in the process reach a quorum, making it very secure. (Treiblmaier & Clohessy, 2020)

## **Blockchain Technology: Fundamentals**

In a scientific context blockchain technology and DLT are often used synonymously, but there is a vital distinction to be made between the two. (Mika & Goudz, 2020) DLT is a technology that blockchain makes use of amongst other technologies. Blockchain is to be seen as a combination of three basic technologies: Cryptography<sup>7</sup>, smart contracts<sup>8</sup>, and peer-to-peer networks<sup>9</sup> (P2P); all imbedded in a distributed ledger design. Essentially, a blockchain is a decentralized P2P network of transactions, confirmations, and ownership transfers, eliminating the need of a central authority or intermediary. Computers on the network use cryptographic algorithms and smart contracts in order to confirm the transactions which are then written into 'blocks'. These blocks build a transaction log in form of a 'chain' which can furtherly be summarized into a ledger. When

transactions occur, records of ownership are permanently logged into the ledgers, there being as many identical ledgers as the number of related nodes. (Akgiray, 2019)

### *Basic Principles and Qualities*



*Based on Attaran & Gunasekaran (2019, p. 15)*

### *A Critical Perspective*

As some might know, the first form of blockchain technology was publicly put forward in 2008 by an anonymous group or person called 'Satoshi Nakamoto'. It consisted of the description of an encrypted and decentralized payment system, later famously known as 'Bitcoin'. Given the only recent development of the still very young technology, blockchain faces a lot of hurdles on the way of becoming a globally used and sufficiently tested technology. Understandably, there is a general lack of understanding and trust in the technology, since it is still considered to be in the testing phase. Moreover, companies tend to struggle to afford the very costly integration of blockchain with the business processes, also being confronted with problems of data interoperability. (Attaran & Gunasekaran, 2019) Due to its premature status, blockchain not only eventually faces security vulnerabilities, but also lacks a formal legal framework which makes it difficult to implement blockchains as a fully legal and operational technology. In addition, blockchain as of now comes with a large energy footprint that likely exceeds the benefits of it. (Attaran & Gunasekaran, 2019) In conclusion, there are various reasonable arguments to doubt the benefits of the implementation of blockchain right now; however, the technology possesses plenty of promising features which indicate a bright future.

## Case Study: Siemens AG

Siemens AG is a global technology enterprise that declares the combination of the digital and physical worlds for the benefit of customers and society its main goal. The company has a very broad range of fields of activity, whilst focusing on infrastructure, energy, manufacturing, and mobility. More specifically speaking, Siemens is subdivided into several businesses: Digital Industries, Smart Infrastructure, Mobility, Siemens Advanta, Portfolio Companies, and Siemens Healthineers; not to mention Siemens Financial Services (SFS). Throughout its long history of 173 years, the German-based company has been known to shape industrial revolutions by setting milestones in several fields, such as electricity, automation, and digitalization; and it continues to do so. The combination of diverse fields of activity and innovative, technological approaches to business not only indicates a futuristic perspective, but furtherly facilitates many different possibilities of implicating new technology, such as blockchain.

### *Blockchain at Siemens AG*

Although being aware of the relative immaturity of blockchain technology, Siemens was and is very aware of the benefits it could provide, considering it has been declared a 'Company Core Technology'. In order to later on fully include blockchains into the business processes, intrapreneurs are working on several new business models, e.g. in energy and supply chains.

### **Combination of Blockchain and IoT**

The 'Internet of Things' (IoT) consists of sensors which detect and/or measure some property of the environment in which they are deployed and translate their input into an electrical signal that can be processed by electronic circuitry. Siemens makes use of the decreasing cost of the IoT and uses its own system, 'MindSphere', to digitalize the supply chain and capture data efficiently. Ready-made blockchain applications on MindSphere help storing and communicating the data by enabling easy contributions and limiting information viewing privileges. This way, it is possible to expose only critical information to other members of the supply chain without compromising security (hybrid blockchain). Furthermore, potential blind spots in the supply chains are replaced by full traceability. Currently, Siemens is working with Atos IT Solutions and Services GmbH to develop the first tracking and tracing applications for the food and beverage industry in order to ensure food safety and customers satisfaction.

## Energy 4.0

With 'e-ing3ni@', Siemens has launched the first blockchain-based energy trading platform in the world. The P2P approach allows full traceability and security, thus enabling the customer to choose the type, origin, and amount of energy they consume. Next to being very transparent about prices and costs, e-ing3ni@ supports sustainable energy trade especially, aiming to minimize pollution.

## Further Applications

Another advanced application of blockchain can be found in the 'Brooklyn Microgrid' project. The young New York company 'LO3 Energy' provides a blockchain platform to connect microgrid-specific technical solutions provided by Siemens Digital Grid Division, therefore creating a system of environmentally-friendly electricity trade in form of excess solar electricity. Besides, the 'Pebbles' project presents a similar attempt to optimize electricity trading. Siemens also uses smart contracts to simplify financial and legal transactions, especially when it comes to power trading in complex markets or digital services in general. In manufacturing, blockchain technology helps to fully automate the ordering and 3D printing of spare parts from a supplier. To conclude, Siemens is looking towards a bright future and it uses blockchain to facilitate that vision.

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# How Netflix Destroyed an Industry While Creating one of the Most Influential Businesses Worldwide

*Fynn-Luka Boy*

## Introduction

Joseph A. Schumpeter, born in 1883, was one of the greatest economists of all time. Being a Visiting Professor at Harvard University from 1927-1928 and in 1930, led to a permanent professorship at Harvard since 1932 (Reismann, 2004). After publishing *The Theory of Economic Development* in 1911, *Business Cycles* was the next key publication of Schumpeter in 1939. In 1942 he published his most famous and most cited book *Capitalism, Socialism and Democracy*, where he introduced his concept of *Creative Destruction*. Schumpeter died in 1950, aged 66.

The subsequent chapter will introduce the concept of *Creative Destruction* in more detail. Following this explanation, a case study of the company Netflix will be presented, and it will be shown critically how this firm reflects the theoretical framework of Schumpeter in praxis.

## Destroying Old Markets and Creating New Ones

The concept of *Creative Destruction*, as introduced by Joseph A. Schumpeter, describes how economies evolve. From the perspective of the Austrian economist the economic structure gets shaped from within by the application of new combinations (Heertje, 2006). To make this concept more comprehensible Schumpeter's definition must be quoted: "[Creative Destruction is the process of] industrial mutation that revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process [...] is the essential fact about capitalism." (Schumpeter, 1942 [2010], p. 73). This results in the fact, that, according to Schumpeter, innovations are the centerpiece of an economy. New combinations destroy old markets and old products. A modern interpretation of Schumpeter's work states it the following way: "Creative destruction constantly sweeps out old products, old enterprises, and old organizational forms, replacing them with new ones." (McCraw, 2010, p. 352). According to Kopp (2019), Schumpeter found that this process is necessary to free up resources and energy which can then lead to progress and new growth (Investopedia.com). The economist claimed, this is a natural process: The system of an economy is driven by "the new consumer's goods, the new methods of



production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.” (Schumpeter, 1942 [2010], p. 73). If an industry is confronted with technological changes it therefore needs to adapt its profile to the demand of these determining changes (Gaffard, 2009). Overall, creative destruction consequently leads to the production of winners and losers. This guides directly to the illustrative example of this chapter.

## Technology Revolutions: How Netflix Destroyed Blockbuster & Co.

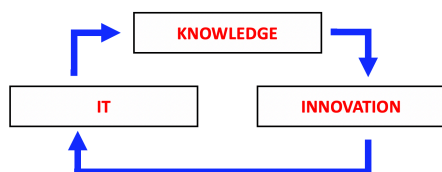
### *Technology Revolutions*

It is important to understand the concept of the technology revolution, since *Creative Destruction* will be demonstrated at the example of Netflix in this book chapter.

The ongoing technological change can have enormous consequences for all industries and their products, for better or worse: New technologies can destroy fields of business but at the same time create various new possibilities for new business models. “The accelerating power of ever more sophisticated information systems is the central force driving this ‘Technology Revolution’ that is destroying old markets and creating new ones.” (Halal, 2012, p. 32). Consequently, *Creative Destruction* is closely connected to the ‘Technology Revolution’. This phenomenon can be seen as a cycle: With the help of information technology (IT) our scientific knowledge increases more and more which leads to innovations which then again upgrade our IT systems (Halal, 2012).

*Figure 1*

*The Cycle of Knowledge (based on Halal (2012, p.32))*



In the following part it will be explained in detail, how Netflix and entrepreneur Reed Hastings “face[d] this common challenge of redefining their goals, cultivating new markets, launching new products and services, and changing how their organization [...] work[s].” (Halal, 2012, p. 33).

### *Before the Age of Netflix*

In the beginning 2000`s, Blockbuster, founded in 1985, was the leader of the DVD rental business with over 25,000 employees at 8,000 outlets (Halal, 2012). Founded in 1997 by IT-expert Reed Hastings Netflix competed against these companies, such as Blockbuster, Wal-Mart and Amazon. Already back in these days, Netflix offered a different model of DVD supply: The customers got their movies via post, based on an abonnement and free return. With 30 employees and 925 movies in stock, Netflix grew fast and was part of the Nasdaq since 2002. Before Netflix was popular, self-scheduling the content independent from classic television schedules was only possible with DVD box sets, these were the golden standard (Jenner, 2018). With the rise of the internet, portable devices have become a central convergence medium. Resultingly the way television was consumed also changed. Netflix resultingly understood that the content consumed via TV is not necessarily linked to the television-set – it was possible to change the concept of television (Jenner, 2018). The upcoming digitalization helped Netflix to grow even further and they shifted their focus to the field of digital business (Glockeneisen, 2018).

### *The Netflix Effect*

Data from Statista shows that Netflix nowadays has about 9,000 employees and nearly 200 million users worldwide (Statista.com). The succeeding passage will illustrate what Netflix did better so that they creatively destroyed Blockbuster and took the leadership in this market.

First and foremost, Hastings had his mind ahead of the industry: In 2005, after the instant success of YouTube in the rebranded internet, as Web 2.0 (Jenner, 2018), the entrepreneur “realized that the time has come to cannibalize his DVD rental business in favor of streaming video.” (Halal, 2005, p. 39). Additionally, he used an open-source approach that enabled Netflix to broadcast videos on nearly every device. Secondly, the businessman chose the possibility to only work online. This means, there are no retail stores and only few employees, resulting in less costs (Halal, 2012). Thirdly, one of the biggest USPs (unique selling point) of Netflix is its ability to get personalized. The company offers a wide range of genres and specific recommendations are generated for the user based on his taste (Glockeneisen, 2018). Additionally, Netflix stands out for the exclusive contents. Since 2013, the American firm has been producing their own “Netflix Originals”, accompanied by purchased footage (Glockeneisen, 2018). A unique feature of these

exclusive contents is that Netflix provides the users with all episodes at once, instead of one episode per week. This concept is called “binge-watching” and is central to the strategy of Netflix, as it gives the control to the users, as it breaks the linear television schedule (Jenner, 2018). Last but not least, Netflix updated the pricing system. The company offers a monthly subscription with unlimited access to the entertainment supply and without any late fees. In addition, Netflix offers a website that welcomes the users with an intuitive and clean design.

With all these factors Netflix outpaced the other actors of the industry. “In short, Netflix beat Blockbuster by setting a new standard for the exploding market in movies and video – much the way Microsoft set the standard for desktops [...] and Google gets the majority of search.” (Halal, 2012, p. 39).

### *But is Netflix the New TV?*

In the US Netflix is at the top of all streaming platforms. In Germany Netflix has many competitors in the market as it is not only competing against other streaming suppliers, for instance Amazon Prime, maxdome or iTunes, but also against linear TV-networks. The German TV market is divided into public, private and pay-tv-channels. The free-tv-market dominates clearly with a distribution of 97,8% (Glockeneisen, 2018). This conservative attitude makes it hard for digital suppliers. However, the distribution in this market will change in the future: The classic TV will experience a drop in viewing figures because of the increased competition and the various offers by Netflix and other digital suppliers. In contrast to that, the growth trend of the digital firms will continue (Glockeneisen, 2018). Nevertheless, the classic TV most likely will not be destroyed completely, as Reed Hastings suggested.

## **Conclusion**

To sum it all up, the rise of Netflix while destroying Blockbuster and challenging the classic TV industry is one of the best examples for the concept of *Creative Destruction*. In his concept Schumpeter (Schumpeter, 1942 [2010]) states that the innovation as the motor of capitalism constantly creates new companies, while destroying old firms. This procedure is a necessity in capitalism. Netflix was ahead of all the other firms because of their technological advantage. The digitalization helped the American company to outpace most of its competitors. Operating online on almost any device, a wide range of genres, the ability to personalize, the exclusivity, the pricing

model and the freedom for every user to get the control about their entertainment led to the fact that Netflix can now serve as an example for this famous concept. Schumpeter's concept of this natural process is nearly timeless in the world of capitalism: It must be highlighted that the competition is still ongoing and will never stop, as markets constantly change, the cycle of knowledge never stops and there can always be a new disruptive innovation.

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## **Creative Destruction: ABOUT YOU**

*Annabell Dlugi*

### **Introduction**

The following chapter is focusing on the economic concept of creative destruction. The concept was founded by Joseph Schumpeter. He was born in 1883 in the Austro-Hungarian Empire and died in 1950 in Connecticut/USA. He played a big part in the way capitalism progressed and brought a new view on how the economy always changed. I will focus on his latest work “Capitalism, Socialism and Democracy” (1942) where he first started the concept of creative destruction. This concept will be analyzed with a case study of the company ABOUT YOU.

### **Creative Destruction: The Concept**

Creative Destruction is the process of economic changes through creative innovations. Therefore, to stay relevant, every economic business has to develop constantly. This is creating an inner change of system. Through innovations there will be a recombination within economic businesses. For example a saddler is becoming a leather car seat producer, when the shift from carriages to cars happened. Schumpeter calls this “—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one” (Schumpeter, 1942 [2003], p.83).

A new interpretation of Schumpeter work says that “Creative destruction constantly sweeps out old products, old enterprises, and old organizational forms, replacing them with new ones.” (McCraw, 2010, p.352).

According to Schumpeter rearranging and opening up new markets is also part of creative destruction. Therefore there is not only product development, there also is market development and expansion (Schumpeter, 1942 [2003], p.83).

Creative destruction is a process. Schumpeter states that one can only analyse a company or an economic sector over time (Schumpeter, 1942 [2003], p.83). One has to always take every stage in time into account to know whether it is creative destruction or just a passing phase in economy. This is why there are certain steps to consider the process of creative destruction.

The base is the constant change of the economy, therefore creative destruction is the foundation of capitalism, and both are very fragile and likely to collapse (Schumpeter, 1942 [2003], p.83). For every sector of economy there will always be change and constant development. It is also given that change will not be superficial, the change will destruct the existing system from within due to a new creative idea. Through this destruction there will be a new sectors to manage and new jobs will be needed. Important in this regard according to McCraw is the critique that Schumpeter's thesis is mainly focussing on big companies, because they are vital enough to change the whole system (McCraw, 2010, p.348). The old base becomes the new base, if one considers Thomas Kuhn we could also talk about creative destruction as paradigm shift (Kuhn, 1962.p.54).

## **The Company ABOUT YOU**

The data about the company ABOUT YOU is gathered from their website, the OTTO-group website and the presentations of one of the CEO's Tarek Müller at the "NOAH18 London convention", a convention for e-commerce start-ups.

ABOUT YOU is a fashion e-commerce company. They are in the sector of fashion discovery. As they state, they are focussing on the user experience. Their goal is, to bring the offline shopping spree into the internet. Adding a more personal fashion experience for their customer, driven by their statement that fashion is "about you".

The company was founded in 2014 in cooperation with the OTTO-Group. ABOUT YOU is based in Hamburg and is a so called Unicorn (a billion US-Dollar business) merely 6 years after their foundation. According to the company them self, ABOUT YOU is one of the fastest growing e-commerce companies in Europe, they are accessible in 19 different countries (website).

The three young and experienced founders are Sebastian Betz responsible for "Tech & Product", Tarek Müller who is in charge of "Marketing & Brands" and Hannes Wiese focussing on "Operations & Finance". Two of them started their own business when they were 13 and 15 years old (website). Rather than mainly focussing on their website ABOUT YOU mostly focuses on their App. Tarek Müller states that the company has over 75% of their whole traffic over the ABOUT YOU app. Their goal is to always have the most personal and inspiring app. (NOAH18 London)

While still being the personal online fashion store, ABOUT YOU is constantly developing new markets and strategies to keep and increase their relevance. Instead of only using models advertising their cloth, ABOUT YOU started using influencers modelling their cloth or advertising ABOUT YOU to their audience on Instagram. The company collaborates with about 500 Influencers per month (website). This creates a personal and inspiring shop, specified to their primary audience: young adults (NOAH18 London).

Organizing events and creating content for their website is also a strong suit of ABOUT YOU. With the introduction of the ABOUT YOU awards, an event similar to the Oscars, only for European influencer about their personality and achievements. The company also sees itself as the biggest fashion and lifestyle magazine in Europe (NOAH18 London).

### **Creative Destruction Case Study ABOUT YOU**

According to Tarek Müller, there are three different sectors in online fashion. The first one is the “buy fashion” sector if you know exactly what you want you would go to amazon. Second is the “find fashion” sector where you would go if you know the category of what you want to buy, trousers for example, than you would go to Zalando. And there is the third sector which is the “discover fashion” sector where you just want to get inspired and in the end buy cloth you didn’t know you needed. The perfect website to do that would be ABOUT YOU (NOAH 18 London).

The segment of “fashion discovery” is invented when developing the concept of ABOUT YOU. Together with the Otto group the founder team came up with the idea to digitize the offline shopping spree. Having their customers experience a new shopping adventure, being the first to settle on the idea of: the app being most important and that the smartphone will be the new number one shopping device, ABOUT YOU created a new market within the market of online shopping. This segment of “fashion discovery” is closest to what is buying cloth offline (website).

The company is constantly changing and developing. As shown before there is not only the fashion segment. The company’s focus is also on fashion content, events and now as the newest innovation since December 2020 a second hand shopping experience on their website.

The OTTO-group is also profiting from the new concept of “fashion discovery”. An experienced company who had a big influence in developing ABOUT YOU and now holding a share of 14 %. When ABOUT YOU first started to become a company concept, they invested in the company



with money, knowhow and resources. Also for their own company development ABOUT YOU was important, as trying out a new concept of online fashion marketing, which they now have adapted to. The OTTO-group evolved from their famous annual catalogue to being a full time e-commerce company (since 2018). Advertising themselves as in the sector of “fashion discovery” and having influencers integrated into their company concept (OTTO website). There are now a lot of similarities between the ABOUT YOU and the Otto website.

With the company being a driving force in opening up a new market (“fashion discovery”) in the new market (online fashion) there is also the destruction of online offline world to discuss. ABOUT YOU as an online shop is destructing the offline shopping market.

There are various reasons why the traditional offline shopping market is struggling. Such as high rents in the city centre and the city’s personality shifts from a unique to a uniform overall picture. City development is slow, compared to the concept of huge ever changing shopping malls which do become very appealing for our mobile society. But mainly there is the competition with the online shopping market which is constantly developing and growing (Manfrahs, 2020, p.6-7). There is a shift in society through digitisation, there is a demand to always get inspired and have the opportunity to constantly changing content. All of which is not possible at this time for the offline shopping market.

## **Summary and Future Perspective**

Joseph Schumpeter’s Theory of creative destruction is still very relevant 80 years later. The case study of ABOUT YOU shows that the success of a market and the development of a new one, adapted to the needs of society, damages or even “destructs” a whole other one. Creative innovations will always be part of the capitalist society and will always cause a destruction within the economy markets. In the capitalist world Schumpeter’s theory will probably never lose its relevants.

In my opinion the online market holds many advantages over the traditional offline market. For example it is only necessary to have one big warehouse and a good transport-system. Since the warehouse location is not important the rent is less expensive and there will be a lot more space for goods. This yields to having a bigger variety in the shop itself. The company can also just focus on one shop and changes can be made a lot easier since everything is virtual. Joining and including

new concepts and ideas can be made and also unmade if there is no success. Everything is faster and there is a quicker response to every change or development. Having created the sector of “fashion discovery” to personalise the impersonal internet is in my mind a great decision, which is probably the future market to be.

There is of course not everything behind “rose coloured glasses” the need to be found online, to be able to gain relevants as a small offline shop, makes it harder for a creative entrepreneur to start a successful business, when having to focus on two markets. The city centre could be and was a great place to get inspired and find creativity, it looks like this won’t be no more if there isn’t a new concept a new development of the offline market. There soon must be a change of system through a new creative view. I say that the city centres have to be creatively destructed to survive.

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## Creative Destruction

*Dostain Ghani*

### What is Creative Destruction?

“Creative Destruction”, refers to the concept of destroying or dismantling the old and outdated practices in a business to bring in more sustainable and reliable alternatives. Innovation plays a vital role in ‘creative destruction’ as the change in the business needs to be more economical than the previous one. Creative Destruction has different impacts on different groups concerned with the change, as for some it may become beneficial and profitable while for some it may become the reason for the deterioration or destruction. This particular phrase was coined in 1942, by an Austrian economist Joseph Schumpeter. He considered this process to be more innovative and reliable, as he observed real-life examples of creative destruction in different businesses (KOPP, 2019).

### *Joseph Schumpeter and His Work*

Joseph Alois Schumpeter (1883-1950) was an Austrian economist who was considered to be one of the greatest economists of the 20<sup>th</sup> century. He is most famous for his book in 1942 *Capitalism, Socialism and Democracy*. It is believed that he was the first person to introduce the world to the concept of entrepreneurship. He believed that entrepreneurs can be the reason for the inflation of the economy as they might bring innovation and technological change to society (LIBERTO, 2019).

He quoted in his book *Capitalism, Socialism, and Democracy*, “The opening up of new markets, foreign or domestic, and the organizational development from the craft shop to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.” (Schumpeter, 1942, p. 83).

From this statement, it can be presupposed that Schumpeter devoted Creative destruction as an industrial mutation where minor or large changes in the business bring in an increase in the profit or revenue of an organization. The creative destruction can also be in the form of opening up new

businesses that replace or upgrades the existing market. Thus, it is clear that creative destruction can surely bring innovation and reliability in the market but may have devastating outcomes for slow and inflexible firms who couldn't keep up the pace of the changes in the market.

Creative destruction can be considered as a paradoxical term where if it may have different outcomes for the different individual concerned with the change. There may be some individuals or groups of people who can adversely get affected by Creative destruction. Such as losing jobs or in the worst scenario closure of the whole business. For instance, the evolution of the transport system brought modern vehicles in place of old horse carriages. This turned several people jobless or in some cases, they were obliged to upgrade to new jobs. For example, Carriage and harness makers almost lost their jobs so they upgraded to making body parts and tire rims for vehicles.

## **Real-life Examples of Creative Destruction**

### *Netflix Effect*

Netflix founded in 1997 by Reed Hastings and Marc Randolph is an American content platform that contains many TV shows, documentaries, and movies. Netflix is a subscription-based service that charges a monthly fee from its customers according to their subscription plan. Originally, when this service started it was purely a movie rental service. More explicitly, the customers ordered the movie on its website and got the DVD for that movie for rent (McFadden, 2020).

The real challenge for most of the companies came in 2007 when Netflix started its online streaming feature, which in terms of creativity can be considered as an innovative change but for most of the companies, it was massive destruction. Such as Traditional Media Companies faced a decline in the customer's rate because customers found out Netflix to be a better alternative. Netflix drove companies like Blockbuster into extinction due to its change to online streaming features. By the end of 2007, there were 7.5 million registered subscribers for Netflix which reflects the downfall for most of the Videotape and Disc rental industries (McFadden, 2020). Netflix started partnering up with multiple electronic companies to allow streaming on blue-ray disc players, Xbox, PlayStation, and TV set-top boxes. Netflix invested \$12 billion in the building of its library of original series and films. By 2020, the subscriber base for Netflix reached over 180 million (McFadden, 2020).

By looking at Netflix's history, it can be concluded that slow and inflexible companies tend to extinct after a matter of time. This means that innovation and changes are happening day by day and any company which is unable to keep up the pace of the market and its competitors will face massive destruction in the market. In terms of creative destruction, it is clear that how Netflix innovated and upgraded time by time to reach the massive milestone of 180 million subscribers. In contrast, the companies which couldn't keep up the pace of innovation and up-gradation faced the downfall in the market. DVD maker companies and DVD rental services faced this downfall as there was a decline in the demand for DVDs. Most of the companies faced bankruptcy and most of their employees lost their jobs or they had to upgrade their jobs by learning new skills and keeping up the pace with the market, by finding new jobs.

### *Decline of the Kodak Moment*

Eastman Kodak Company is an American company that manufactures photographic supplies and provides digital imaging services, as well as products. The first Kodak camera was launched in 1889 by George Eastman who made photography available for everyone (BRAND MINDS, 2018). Initially, Kodak remained successful as they were the pioneers in the photography industry. Their main product was the film and printing photos. It worked in a way that clients who used Kodak camera to take photos had to send the camera to the Kodak factory where the photos were printed. That is the reason Kodachrome<sup>1</sup> was the most sold item of Kodak (BRAND MINDS, 2018).

The invention of the digital camera's took Kodak at risk as the demand for their Kodachrome started to decline. Secondly, there were better options in the market for digital cameras. In 1984 most of the people also switched from Kodak to Fuji<sup>2</sup>, because their color film was 20% cheaper than Kodak. So, when Kodak saw its decline in customers, released its first digital camera in 1991, which was quite late in the market as there were companies already in the market which were bringing forth digital cameras. Although, afterward Kodak released various digital cameras but also kept on producing analog cameras and film as well (BRAND MINDS, 2018).

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<sup>1</sup> Brand name for color reversal film produced by Kodak.

<sup>2</sup> A Japanese photography company.

While, when the whole market was making progress and innovating, Kodak remained to act boomer and failed to keep up in the market or were slow in taking the ingenious steps. Although, Kodak invested in the digital camera market but blundered its investment (Anthony, 2016). Kodak failed to comprehend that they were being destroyed because they were blinded by their success in the Photography film market. Kodak invested billions in their printing industry and started manufacturing expensive printers but failed to innovate (BRAND MINDS, 2018).

The real challenge for Kodak came in when the digital camera was drifted to smartphones, which gave them the access to save and share the photos instantly. Interestingly, Kodak in 2001 acquired Ofoto, which was a photo-sharing site and its purpose was to encourage people to print digital photos but that remained to be a failure for Kodak as digital camera photography was shifting to mobile phones and social media, whilst Kodak still was looking for opportunities to boost up their film production and sales. Thus, in 2011 Kodak was bankrupted and had to face a debt of \$6.8 billion (MERCED, 2012). In the same year, Facebook acquired Instagram for \$1 billion which was only co-founded 18 months earlier (Anthony, 2016). Today, Instagram has become one of the most famous social media platforms for sharing photos online with a market value of \$100 billion (SIMON, 2020).

Being the leaders of film photography for almost a decade didn't realize the true meaning of Creative Destruction and faced the worst destruction in their history. It can be said that Eastman's Kodak left a true example for business enterprises regarding Creative Destruction. It can be said that what Joseph Schumpeter coined in 1942 remained a successful invention for the business world. This particular phrase can be considered as a coin with flip sides having different outcomes, taking the Example of Netflix on one side of the coin while Kodak's on the flip side. Both of the companies faced different outcomes following their response to the changes in the market, hence proved the real-life examples for Creative Destruction.

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## Wing Delivery Systems Via Drones

*Madleen Hass*

### Creative Destruction

Change is embedded within our society, our economy and our everyday life. It has always been there and will never stop. Because of it we have cars instead of carriages, tablets and eReaders replace printed books and video streaming platforms become more popular than DVDs.

In 1942 the economist Joseph Schumpeter coined this process in his book *“Capitalism, Socialism and Democracy”* and called it *“Creative destruction”*. Tejvan Pettinger quotes Schumpeter’s book in his article who said that “[T]he fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.” (Pettinger, 2018). It describes that new markets are being opened up and businesses and factories are developing, resulting in a continuous economic revolution in which old structures are being destroyed and replaced by new ones. Schumpeter names the entrepreneurs as the main character and reason for this process. Through their eagerness they are willing to implement new ideas and innovations into the economy (Weis, 2013). But also, technological progress promotes creative destruction because it unfolds new possibilities that haven’t been there before (Lorenzen, Vöpel, 2013). The free market and the competition are the reason why creative destruction takes place. Companies are afraid of falling behind and not being able to sell their product anymore, so they need to always update their business and adapt to the latest technologies. If a company is not profitable anymore, according to Schumpeter, it should come to an end and its resources like labor and capital can be used by more profitable firms. The willingness to change is existential for the preservation of the company (Pettinger, 2018).

### The Company of Wing: Safe and Fast Drone Delivery

A great example for creative destruction and an innovative new market is the company „Wing“. The following descriptions have been taken by the company’s, the Smithsonian’s National Air and Space Museum with their article *“America’s First Commercial Drone Delivery Service”* and X – The Moonshot Factory with *“Wing, Transforming the way goods are transported”*.

## *The History of Wing*

Wing was founded in 2012 by the Alphabet company, the parent company of Google. Since then, they developed and built prototypes, vehicle designs and drone technologies and executed test flights. Their first test delivery took place in 2014 in Queensland, Australia where they flew a first aid-kit, candy bars, dog treats and water to farmers (X-The Moonshot Factory). Over the next years Wing has made more than 100,000 test flights on three continents in order to optimize their drones, technologies and software (Smithsonian's National Air and Space Museum).

The website's blog offers an overview over the next steps of expansion. On April 8<sup>th</sup>, 2019, Wing completed their first commercial drone delivery to homes in North Canberra, Australia. In the following weeks and months, it was expanded to other territories like Queensland.

Wing expanded their service to Europe on June 25<sup>th</sup>, 2019. The Vuosaari district in Helsinki, Finland became the first European city with access to drone deliveries. Their decision to launch in Helsinki has various reasons: Firstly, the city is known for its open-mindedness towards new technologies and secondly, it is their goal to reduce gas emissions and the number of cars on the streets. Since the drones are all-electric with no emissions, they can help to achieve these goals.

On October 18<sup>th</sup>, 2019 the first drone delivery in the US history was made in Christiansburg, Virginia. Wing delivered packages, snacks, medicine and gifts to its residents and therefore operated the first commercial air delivery directly to homes in the history of the US.

## *How it Works*

The drone delivery by Wing offers a safe and fast way to get small packages including groceries, medicine, gifts and food delivered directly to your home. The placement and tracking of the order can be done via an app. When the aircraft arrives at your home, it lowers down its tether and unclips the item(s).

The drone has fixed wings with one-meter wingspan and hover propellers in order to transition between an airplane and a helicopter which keeps the goods level. During the flight the drone reaches a speed of 31.3 m/s and a height of about 45 meters. It weighs 4.8 kg without packages and can carry up to 1.5 kg.

To ensure safety on the aircraft, there are additional motors and batteries and multiple navigation systems in case of issues. The UTM software designs the best route for delivery by using weather, terrain and airspace data and the onboard software analyses its surroundings and its own health. Wing's software was developed with the help of NASA, the Federal Aviation Administration (FAA) in the US and the Civil Aviation Safety Authority (CASA) in Australia.

To sum up, the Wing company and its concept of drone delivery is a good example of creative destruction. It is the first company to have reached allowance in three countries to carry out their business idea which makes it a completely new innovation and furthermore, it opens up a new market. Moreover, if the company expands their business within the next years into the whole world or if other companies follow the same concept, it could result in the decay of long-standing procedures. Another advantage of drone delivery is the zero-emission which is more and more important for the people in the world and therefore more people could choose this service rather than driving with the car themselves or having their packages delivered by trucks.

## **The Downside and Criticism of Wing**

Despite all the advantages of creative destruction there are also some problems and challenges that come with new innovations and that can be seen or forecasted for the Wing Company as well. Since Wing is at the moment a relatively small company that offers their services only in a couple of cities, a negative effect is not fully visible at the moment. However, if you look into the future and assume that Wing will develop their business, other companies offer the same services and drone deliveries are available for everybody over the whole country, then you can assume effects.

In the following, I will use information by Eleanor Lamb in "Experts Discuss Challenges and Opportunities of Drone Delivery" (Transport Topic, 2019) and by Trevir Nath in "How Drones Are Changing the Business World" (Investopedia, 2020). I'll include the company's website again along with Jeremiah Karpowicz with "TruWeather Proves Why the Drone Industry Need Better Weather Data" (Commercial UAV News, 2018), Anthony DiNota, Steve Douglas and Dave Marcontell with "Why The Skies Aren't Filled With Delivery Drones... Yet" (Forbes, 2019) and the FW Logistics website with their article "The issues with drone delivery" (2018).

First, with creative destruction there are always losers and winners. Losers are the companies that failed to update their business and are therefore at a high risk of being replaced over time. This

also results in structural and/or regional unemployment (Pettinger, 2018). The drones are able to deliver medicine, food and other goods within minutes after the order placement. Normally, deliveries take days to arrive because they are delivered with trucks from traditional delivery services like UPS, DHL, FedEx or Hermes. Those companies could lose customers since they can't offer the same delivery speed. Therefore, they would have to dismiss employees. However, they wouldn't be completely out of business because drones can only deliver goods within a limited area and weight limit and packages that are being send long-distant can't be transported with the drones.

Then again, the awareness for the environment is rapidly growing. A study from the firm Resource Systems Group (RSG) showed that a person driving to a store to pick up an item produces 26 times more grams of carbon dioxide emissions than a drone delivery (Lamb, 2019). With Wing Delivery customers have an environmentally friendly alternative to picking up products with their car. With an increased widespread usage, companies would rely less on vehicles and more on drones, causing a decreased demand for cars and trucks. Therefore, the automobile industry would have less orders and production with the result of having to lay off employees (Nath, 2020).

Secondly, safety and security are main points that concern a lot of people. One problem is that most drones can only fly in good weather conditions and they can be severely impacted when there is strong wind, icing or fog (Karpowicz, 2018). Another issue is the aircrafts have difficulties to find a safe landing spot in urban spaces. Some houses don't have a backyard and the drones can't place the items in a mailbox. Even if the drone lands safely and delivers its package, there is no assurance that a neighbor might pick up the package or a dog in the backyard destroys it.

Also, since the drones are travelling unmanned and autonomous there is a risk of hackers getting into the system, stealing the aircraft and therefor posing a risk to the people and other objects in the air (FW Logistics). Speaking of failure, only one system failure in a billion hours of flight is tolerated in order to be permitted to fly. Hobby drones in occasional usage fail within months and can't keep up with the high rules of the FAA. Small drones by Wing with a weight up to 6.3kg are already a risk to people when they fail. Future drones would have to be the size of military drones which can weigh up to 2,500kg in order to take over the delivery branch and their failure can cause great damage (DiNota, Douglas, Marcontell, 2019).

Thirdly, most people are still concerned about their privacy. Most drones have cameras onboard to back up the navigation if the GPS fails. The Wing still-image camera is pointed straight to the ground and is unable to aim towards individual objects (website). However, most people still feel unsure and watched when a drone is flying above their property. Now imagine that in the future there might be hundreds of drones per day flying above your head and all of them with cameras. Hackers could use the pictures and publish them or the companies could use the photos to analyze your house and garden and send you advertisements for items you might need.

To sum up, there are still a lot of concerns and issues when it comes to drone deliveries. They have to be solved within the next couple of years in order for the majority of the population agreeing and using the service more often.

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# From SHISHA Clothing to NOORLYS: Creative Destruction in the Fashion Industry

*Katharina John*

## Introduction

In the following book chapter, I will discuss the theory of creative destruction displayed on the fashion industry. The focus will be on the shift from fast fashion to slow fashion. I will also take a look at the clothing company NOORLYS. The firm is a role model in slow fashion and just adapted more sustainable values and strategies. That raises the question if a creative destruction is taking place in the fashion industry as well as within NOORLYS according to its new business principles?

## *Data and Methods*

For gathering data, I took the information of the current company's website (NOORLYS | Eco. Fair. Love. – NOORLYS GmbH) and their former website (SHISHA Clothing Onlineshop (shishabrand.com)). I also conducted an interview to get more specific information about the firm. Literature review helped me to get a theoretical understanding of creative destruction, fast fashion and slow fashion.

## Main Part

Before I will display the theory on the fashion industry and the company, I will give a short overview of NOORLYS and creative destruction. Even though creative destruction has a long history, I will use the definition coined by Schumpeter for the comparison.

## *Case*

NOORLYS is a clothing brand located at the Baltic Sea in Kiel. It is a small company with a team of six employees. They sell sustainable and vegan clothes and accessories, which are from a fair and handmade production (website). Until December 2020 NOORLYS was a sub brand of the fair surf wear label SHISHA Clothing. SHISHA Clothing was founded almost 20 years ago in 2002. Three surfers in their twenties wanted to create the perfect sweatshirt for the surf lifestyle. They



started small with the idea and an equity of 25,000€ which they earned with their surf school (interview). A high value was set on quality and fair production. Therefore, they only produced in Europe. In the last few years, they invented an even more sustainable brand: NOORLYS. At the end of 2020 they decided to convert SHISHA Clothing into NOORLYS. They “believe in a future in which sustainable, fair clothing will be standard, for this standard SHISHA Clothing transforms to NOORLYS” (website).

### *Theory*

Creative Destruction has its roots way back in history. The Egyptians had the myth of a Phoenix, which was adopted by the Greeks. The saga says that the bird was a symbol of the rising sun. It would live for five hundred years. At the end of its life the Phoenix would burn to ashes on its self-made funeral pyre. Out of the ashes would rise a new Phoenix. This was an on-going cycle. Furthermore, creative destruction can be found in religions. For example, in Christianity as the resurrection of Christ. In Hinduism the theory is represented as an infinite cycle with the three supreme godheads and their duties. The creator will create the universe which will be protected by the preserver. The destroyer will destroy the universe and makes room for the creator to start over with his task. Johann Gottfried Herder (1744-1803) transferred the Indian myths into German philosophy. In addition, Johann Wolfgang von Goethe (1749-1832) writes about creative destruction as well. He does not only refer to the act of creative destruction being painful but also to the term desire of creation (Reinert & Reinert, 2006). This concept is crucial for creative destruction. A company has to be innovative to be successful with this theory. For that it needs the desire of creation. Along with this term comes power of creation (Weis, 2014).

Werner Sombart (1863-1941) was the one who introduced the concept of creative destruction into economics. His work was strongly influenced by Friedrich Nietzsche (1844-1900). However, the term of creative destruction in economics is connected to the Austrian-born economist Joseph Alois Schumpeter (1883-1950) (Reinert & Reinert, 2006). He first used the term in his book *Capitalism, Socialism, and Democracy* (1942) (Weis, 2014). Schumpeter writes that Capitalism can never be stationary. For that it needs the process of creative destruction. “The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new customers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates” (Schumpeter, 1942, p. 147). After this explanation

he gives several examples of creative destruction in history. One prime example is the development of transportation “from the mailcoach to the airplane” (Schumpeter, 1942, p. 147). Creative destruction “incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one” (Schumpeter, 1942, p. 147).

### *Creative Destruction in the Fashion Industry*

The fashion industry is changing. More and more sustainable brands can be found since sustainability is increasingly becoming more important to people. To understand slow fashion, fast fashion has to be defined before since “the slow fashion movement developed in response to the fast fashion system of production and consumption” (Hall, 2018, p. 285). The goal of fast fashion companies is to be able to adapt new trends quickly. They most likely produce in mass production under bad conditions to keep the costs and prices low. That is another characteristic of fast fashion: the price as well as the quality are low. The products are manufactured for a short lifespan. This concept “brings down prices and increases consumption” (Hall, 2018, p. 285). The impact of fast fashion on the environment is terrible. There is not only the problem of unsustainable materials and production but also the high waste that is produced (Hall, 2018). But there is a response for that problem: slow fashion. “Slow fashion represents a vision of sustainability in the fashion sector based on different values and goals to the present day” (Fletcher, 2010, p. 262). The focus is on quality and sustainability. That means longer production times, usage of local materials, fair working conditions and higher prices (Hall, 2018).

Comparing the shift from fast fashion to slow fashion with the theory of creative destruction similarities can be found. There are definitely new methods of production for a new market. The knowledge of the former fashion industry is transformed to a more sustainable industry. However, there is a huge difference in the purpose of change. As I have mentioned earlier, creative destruction is the engine of capitalism. The goal is to maximize profit. In the case of slow fashion, the goal is to protect the planet and to give an option for a sustainable lifestyle. At this point the ethical value of production is important. An appropriate question would be if it is even possible to destroy fast fashion completely. Fletcher (2010) points out that fast fashion is only “a business model tied to a specific set of economic priorities” (p. 263). In her opinion “we created it [fast fashion]. We can create something else” (Fletcher, 2010, p. 263). And that is what is happening. Companies invent new ways of production for clothes that fit into the criteria of slow fashion.

### *Creative Destruction at the Company NOORLYS*

One of the companies that invests into a better future is NOORLYS. Their motivation is “We no longer want to accept the current state in one of the dirtiest and most wasteful industries in the world and act on our own!”, (website). As I have mentioned before, NOORLYS is a new brand that developed from SHISHA Clothing. Their former brand was not sustainable and fair enough according to the company’s standards (website). By deciding to eliminate SHISHA Clothing and investing into NOORLYS, they followed the theory of creative destruction. But again, the purpose of change was not profit maximization but the wish for a better future. However, they adapted new methods in their production.

In the following I will explain what makes NOORLYS methods and products special. They set high value on local production in Portugal and Turkey. That means a short transport distance causing less CO2 pollution. Furthermore, they are in close contact with the production facilities. The employees know for whom they are producing for. In addition, they work under fair working conditions to fulfill NOORLYS high standards. Products of NOORLYS are made of over 90 per cent natural fibre. One special fibre is the recycled polyester made of plastic waste from the ocean called seaqual. They banished standard materials from the fashion industry like wool and leather and replaced them with sustainable options. All the heart and effort that is put into NOORLYS high quality products create long lasting clothing. NOORLYS shows that it is possible to become a slow fashion firm supported by their guiding theme “We love Nature!”, (website).

### **Conclusion**

In conclusion a modified form of creative destruction can be found in the fashion industry and in the company of NOORLYS. The big difference to the original theory by Schumpeter is the impulse behind the application. This impulse is ethical founded and not driven by profit maximization. NOORLYS approach of creative destruction proves that the methods and the market for slow fashion exist. It is a big step for a company to eliminate a brand and to invest in a completely sustainable one. However, it is achievable and is accepted by the customers. NOORLYS sat an example in the fashion industry. The desirable effect would be that other clothing companies will follow. Step-by-step it would be possible to revolutionizes the fashion industry founded on an altered version of creative destruction.

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# Creative Destruction and Amazon Go

*Jaskaran Deep Kaur*

## Introduction

Creative Destruction is an economic theory conceived by Joseph Schumpeter in the 1940s while he observed the automobile revolution of Henry Ford, this theory is also known as “Schumpeter’s gale”. The Austrian-American economist delineates creative destruction as follows (Schumpeter, 2006, his emphasis):

*"The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, ...(This process) of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one".*

Even though he was highly influenced by Karl Marx, he affirms that a necessary requirement in order to grasp the concept of Creative Destruction is comprehending Capitalism, which is an “evolutionary process”, (Schumpeter, 1980) therefore it can never be static.

Seeing this theory from nowadays’ point of view, we would label it as an innovative concept also able to explain the planned obsolescence, however the term “Creative Destruction” was introduced in economics by another economist called Werner Sombart. (Reinert and Reinert, 2006) Furthermore the idea that the destruction is the base for the creation of something new is an old one, an example is in Hinduism where we find the three godheads: Brahma the Creator, Vishnu the Preserver and Shiva the Destroyer. (Reinert and Reinert, 2006)

## Concept and Case

Losses and gains are a result of technological progress, which has both positive and normative consequences for growth. In order to discover one of the many cases of Creative Destruction, the following pages delve into the latest Amazon Go case.

First is important to shed light on Amazon.com Inc., which was one of the first companies to sell real goods on the Internet founded by Jeff Bezos, who is also the CEO and the president of the company. In today’s date, according to the Forbes wealth index he is the richest person in the World.

In the beginning of January 2018, AMAZON.COM Inc. opened its first “sans-checkout” grocery store in downtown Seattle. (Polacco & Bakers, 2018) Purchasers may enter the shop by scanning their QR code of Amazon Prime account, then just pick items off the shelf and walk out without going through a physical check-out; as they leave the grocery store their account will be automatically charged. (Amazon website)

The “Just Walk Out Shopping”, as Amazon.com calls it, enables shoppers to save time since they do not have to wait in line at the cashier. Every single movement of the customers is supervised by the security cameras, which are using machine learning for instance AI softwares, microphones and sensors. (Martin et al., no date) Amazon stated that they just opened two of these modern grocery stores, but they are planning to expand their new idea across the whole USA.

The impact of this opening becoming news steered other grocery stores of the USA, like Walmart and Kroger, to persevere with the cashier-less option. (Martin et al., no date) This reaction was already foreseen in the theory of Creative Destruction because the markets unable to keep up with new innovations are going to be considered “obsolete”, therefore unqualified to satisfy the needs of the developing demand.

Polacco and Bakers, in March 2018, conducted a survey with six participants in a city in the Midwest. According to that survey, the interviewed grocery store managers stated that the “Just Walk Out” service will eliminate staff-customer communication and one of them said that a lot of jobs would be lost. They had surprisingly very different opinions, however all of them agreed upon the belief that Amazon Go’s new technology will be adopted by other food chains, reenforcing the idea of destroying the old economic system and creating a new one.

Coming back to the Schumpeterian thinking, as written in his book “The Theory of Economic Development”, Schumpeter affirms that an entrepreneur, with attention in which historical context it operates, creates profit opportunities by contriving a new product, a new production process or even a new market strategy, he/she is a relevant figure that introduces innovation in the economy. We are able to observe the exact same scheme when it comes to Creative Destruction even though this might deceive some economic discontinuities. (Schumpeter, 1942).

Schumpeter was well conscious about the latter statement, in fact he writes in another book chapter “The Contours of Economic Evolution”, that innovations might take the system out of equilibrium.

The goal of Amazon.com Inc. from the beginning was to make the lives of their customers easier from selling goods online to “Just Walk Out” shopping, but the barrier that they might encounter could be the privacy concern, as they are using the latest technology for security reasons. Every movement is supervised, for instance when the customers are picking items up or putting them back.

This provides Amazon.com Inc. with a lot of information enabling them with the power to target shoppers like never before. (Martin et al., no date) Furthermore the company is also aware of what their customers buy online on Amazon.com, watch on Prime Video or how they move around; all this combined together is an enormous amount of data, in the hands of a single company. (Wingfield et al., 2018)

Adding to the concerns about privacy, it is important to underline that after all we are humans, some of us might opt for spending more time and prefer human interaction, maybe also seek a more personal experience. (Polacco and Backers, 2018)

It is possible to get another interesting insight into the topic by pondering on to what extent can Creative Destruction be future oriented. According to Schumpeter’s article “Creative Response in Economic History” published in 1947, there can be two responses in business one is “adaptive” and the other one is “creative”. The latter response from the point of view of an observer is identified in Latin as *ex post* meaning “after the fact”, therefore it cannot be predicted.

On the other hand we have the adaptive response where the “economy or a sector adapts itself to a change”. (Schumpeter, 1947) Comparing this statement with the status of Amazon Go, it is evident that their approach to the market is fairly creative, by means of which other companies dealing with the same business opt an adaptive response, in order to stay adjourned with the latest demand. Therefore if every business chooses “the survival of the fittest” (Darwinian evolutionary theory) or in other words to adjust to the creative market conditions for their own survival, Creative Destruction can be future oriented.

## Conclusion

There are many companies attempting “Creative destruction” ideas at some point during their activities, but only a limited number of them are actually capable of implementing these ideas meanwhile running the company. (Tülüce and Yurtkur, 2015)



Innovations are a fundamental part in a fruitful economy and they bring development in a society, however they also may set the economy to an unstable position causing damages to the working class. Entrepreneurs are well aware of the risks that they might encounter in their way, but in a capitalist economy the motion is life. As a famous saying states: “Every path has its puddle.”

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# **nu-in: Creative Destruction as an Approach to a More Sustainable Fashion Industry**

*Estelle Klemp*

## **Introduction**

Textiles and garment represent an indispensable part in our everyday life, not only as a means to an end but also in order to express individuality - unfortunately at the expense of the environment. According to the Ellen MacArthur Foundation the fashion industry has an immense ecological impact and beyond that garment production has approximately doubled in the last 15 years, while at the same time it is estimated that more than half of fast fashion produced is dumped in under a year (2017). Due to the fact that the fashion industry's current system operates in an almost completely linear way it is inevitable to approach a more sustainable way in order to combat major environmental challenges. Therefore, the theory "creative destruction" can serve as a solution to make way for more innovative ideas and in this chapter it will be applied to the company nu-in.

## **Creative Destruction**

The term "creative destruction" was first used by the Austrian economist Joseph A. Schumpeter in 1942 in order to explain how innovative ideas and methods replace old structures (McCraw, 2020). Schumpeter describes creative destruction as such: "(...) that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one" (2018, p. 115 f). The introduction of new goods, methods, markets and organizational forms is what Schumpeter calls the "fundamental impulse that keeps the capitalist engine in motion" (2018, p. 115).

Moreover, Śledzik elaborates in his paper that according to Schumpeter, new opportunities for investment, growth as well as employment can be created by the actions of the entrepreneurs and that innovations are imperative to explaining economic growth (2013).

Furthermore, in accordance to Schumpeter, the economy is always evolving and thus it will never reach an equilibrium (Holcombe, 2020) and as creative destruction is an evolutionary process Schumpeter writes that the development of capitalism must be judged over time (2018, p.116).

Beyond that, Holcombe indicates that new products and processes turn the old products and processes into outdated ones and therefore companies are obliged to adapt to the innovative changes made by other firms in order to avoid ending up as victims of creative destruction (2020).

He continues that creative destruction entails a conflict between those who want to get ahead and those who want to stay ahead (2020). As a consequence, the theory encourages the firms striving for change, yet it threatens those aiming at stability.

Schumpeter points out that in the capitalist system it is inevitable to outperform competing companies by planting the seeds of innovation in the very fundamentals of the firms (2018).

Finally, Aldo van Weezel highlights the importance of innovations in today's ongoing competitive system (2010) which is leading to the next part: nu-in.

### **nu-in: Applying the Concept of Creative Destruction to the Case**

The Fashion industry places a tremendous burden on our planet and therefore it is crucial to introduce environmentally friendly innovations in order to revolutionize the industry.

This is exactly what the company nu-in aims at. Founded in 2019, the company follows the mission to create stylish clothes with a lower environmental impact.

In this e-book chapter, all the mentioned information can be found at the webpage of nu-in: <https://nu-in.com>, especially in the sections "Sustainability" and "About Us".

Making use of the slogan "Fashion. Sustainably Driven" it becomes obvious that sustainability is rooted in the foundation of the company and nu-in claims to be striving to become an alternative to bigger brands that produce unsustainably. With regards to the theory of creative destruction, this decision might set the firm miles ahead as companies that still produce in an unsustainable way might appear obsolete considering the rising awareness of sustainability.

When referring to sustainability, the startup takes into account three sectors: economy, environment and social aspects.

Furthermore, innovations such as the introduction of new products and methods play a central role in Schumpeter's theory of creative destruction. This can be demonstrated by nu-in: innovative materials encourage the company to shift the fashion industry towards a less polluting one.

Among other things, nu-in uses recycled materials such as recycled cotton and polyamide as well as Seaqual. Seaqual is made from plastic regained from the sea and old plastic bottles which makes it one of the most earth friendly fibres in the world.

Next, the introduction and establishment of new production methods align with the requirements of creative destruction. Among these methods one can find inter alia re-and up-cycling, using biodegradable materials and clean dying. Clean dying is a vital step in order to reduce pollution because it ensures that no harmful toxins are released into the environment and it is estimated by the world bank that approximately 20% of water pollution is due to textile dying.

Additionally, the startup also considered the packages in which the products are being delivered to the customers. The purchase will either be delivered in boxes made from consciously produced FSC certified cardboard or it will be shipped in polybags which are completely biodegradable and compostable. Another innovation is the implementation of transparency on which the firm places a great deal of importance. For instance, one can check what the products are made of, where they were produced, what the packaging consists of and thus purchase the most sustainable item.

## **From Linear to Circular Economy**

As the theory of creative destruction suggests the economic structures can be revolutionized and the linear economy is one example that must be replaced in order to protect the planet.

According to the Ellen MacArthur Foundation, less than 1% of all textile production is recycled into new clothing (2017). Taking into consideration that approximately 100 billion garments are being produced each year, ginormous amounts of unnecessary virgin feedstock are harming the earth. Therefore, the company aims at becoming part of the circular economy and shifting the fashion industry towards a more sustainable one. They define circular fashion as follows: “Circular fashion can be defined as clothes, shoes or accessories that are designed, sourced, produced and provided with the intention to be used and circulate responsibly and effectively in society for as long as possible in their most valuable form” (section: Designed for Circularity). On the basis of circularity, the brand launched their 100% recycled cotton denim collection, which not only uses recycled cotton but also water saving indigo dyeing technology, low impact washes and beyond that the jeans have bar tacks as an alternative to rivets which facilitates the recycling process.

## Conflict: Change vs. Stability

As I have already mentioned, Holcombe explains that creative destruction involves a conflict between those who strive for change and want to get ahead and those who want to stay ahead (2020). On December 11, nu-in published an email on the social media platform Instagram which they had received on November 27 from NA-KD, a big fashion brand with 3 million Instagram followers. In this email, NA-KD makes multiple accusations, for example that the startup would imitate their website and that nu-in “has chosen a logo format that is very similar to NA-KD’s logo“. However, after having examined both websites, personally I find nu-in more inclusive in terms of age, skin color and body shapes. Plus, the logo of nu-in is written in rounded lower case letters while NA-KD makes use of sharp, capital letters. For this reason, I interpret the email in the same way that is stated in nu-in’s Instagram post: NA-KD’s “unsustainable business model is threatened“ by nu-in’s concept that strives for change and sustainability. To my mind, these incidents underline that the company’s model is an example for creative destruction.

## Conclusion

To put it in a nutshell, Schumpeter’s theory of creative destruction is essential in the capitalist system as innovation and creative elements are essential for economic progress. When applying the theory to the case nu-in it becomes clear, that there are many ways, such as innovative materials, packaging and methods in which the economy can shift towards a more circular model in order to protect the environment. Yet, this means that bigger brands might want to fight the change and threaten the company as they want to stay ahead.

Nevertheless, the actions by nu-in are an important approach in order to follow the urgent need to revolutionize the fashion industry towards more sustainability. However legal regulations, increased awareness and education of the society will be necessary so that they understand the consequences of their actions and demand products that are produced sustainably. Only then it might be possible to achieve a real paradigm shift.

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# Is Uber a Creative Destructor?

*Chiara Kracklauer*

## Introduction

"Creative destruction is the essential fact about capitalism" (Schumpeter, 1942). This quote by Joseph Schumpeter (1883–1950), written in his book about Capitalism and Socialism (82–83) in 1942, shows how creative destruction is an important part of today's economy. But what exactly is meant by creative destruction, and what does it have to do with capitalism? This paper will further discuss the concept of creative destruction and whether the ride-sharing app Uber can be seen as an agent of creative destruction.

## Definition Creative Destruction

Let's first look at how creative destruction is defined. Creative destruction refers to "the phenomenon of economic change through the creation of new ways of things that endogenously destroy and replace the old ways" (Ulgen F. ,2013). This concept/principle implies that old assumptions need to be broken so that new innovations can benefit from existing resources and energy. According to Kopp (2019), the theory of creative destruction treats economics as an organic and dynamic process in which "equilibrium" is no longer the market's end goal. Equilibrium in economics means that economic forces, such as supply and demand, are balanced (C. Potters, 2021). But in creative destruction, "through innovation and competition, many fluctuating dynamics are constantly reshaped." (Kopp, 2019) This results in winners and losers, as implied by the word "destruction." As already suggested, the creative aspect of technological change results in enhanced and cost-efficient products and services that are marketed. Through these new innovations and technologies, entrepreneurs and workers will create a so-called disequilibrium and focus on new profit opportunities (Kopp, 2019).

## Uber's Business Model

Let's evaluate this by looking at the company Uber and examine whether it can be seen as an agent of creative destruction. Therefore, we first have to understand Uber's business model. Uber is considered to be a technology platform that has two different groups of customers. One of these groups has so-called excess and idle capacity and wants to engage with it in market exchange (the



drivers). The other group demands using that capacity and is ready to pay for it (the riders). Uber intermediates these two groups through preselecting riders and drivers, presetting processes, instituting quality control, and providing certain policies. So, let's have a closer look at how Uber functions step by step. Uber works through a mobile app that connects drivers and riders with each other. First, one uses the app to request a ride, then when a nearby driver accepts your request, the app shows an estimated time of arrival for the driver heading to your pickup location. Your app notifies you how far the rider is away, when he is about to arrive and with information about the driver. You can see their first name, the vehicle type, and license plate number. That way, you can make sure you get in the right car at the pickup location. Furthermore, the Uber platform has a two-way rating system where drivers and riders give each other ratings based on their own trip experience. The ratings reach from one to five stars, and the average rating is provided in your app. When you arrive at your destination and exit the vehicle, your fare is automatically charged to the payment method you provided on your Uber account. Uber also offers different rideshare services like UberX, which is an everyday car with seating for up to four people or UberXL, which includes SUVs and many more.

## **Uber and Creative Destruction**

Now that we understand the concept of creative destruction and the company Uber let's see whether Uber can be considered a creative destructor. As explained above, creative destruction explains a type of innovation that changes everything that was done before its introduction to the market processes. Once this innovation is in place, all agents that don't embrace it are eventually eliminated by market processes (Schumpeter 1942). According to Schneider (2017, p.38), Uber is not the original pattern of a platform. Platforms existed before Uber, and Uber did not completely change what a platform is supposed to do, which is intermediate different kinds of capacities. (Schneider, 2017, p.38) So, Uber was not the original innovator of a platform at such. But Uber was the first to bring it to transportation on a global level. Let's look at how Uber has changed the transportation market. Uber's strategy to grow includes seeing prior inefficiencies and challenges in the ride-hailing and taxi industry and trying to overcome them. The first challenge that they saw was the fear of unfamiliarity of the drivers. Therefore, as described above, Uber shows your driver's information and a rating provided by other users. In addition to that, before Uber, one could not get real-time notifications of the rides. Uber included a feature in which people can check

out their driver's location after booking their cab and get real-time information about their ride in terms of arrival and cancellation. On top of that, people were afraid to stick in traffic for long hours. Uber came up with the idea to provide Uber drivers only with the shortest routes with less traffic area. Therefore, one has less fear of getting stuck in traffic for long hours. The last major challenge that Uber came up with a solution for is the payment method. In taxis, one could mainly only pay with cash whereas Uber came up with a cashless payment system. So summed up, compared to the traditional, legacy taxi cartels, Uber offers lower prices, faster and more quality service, and more transparency regarding choosing drivers and determining fares.

On top of that, the taxi industry has a so-called medallion system that regulated the taxi industry that Uber managed to topple. So, what exactly is that medallion system?

This system exists in New York and many other cities in the U.S and worldwide, but I will focus on New York City in this paper. The medallion system is a market created by government regulation of the taxi industry. In New York in 1937, the city put a cap on the number of yellow cabs that could be on the streets because there were too many. (Kowalski,2019) A taxi driver needed a license to operate a vehicle as a taxi (a taxi medallion), in addition to an individual taxicab driver's license. Due to the fact that the city has increased the number of medallions much more slowly than the growth in demand for taxis was, the price of medallions steadily increased over time. Taxi drivers saw the medallion as the safe investment to eventually lease out when they wanted to retire. Since 1980, New York taxi medallions have been a better investment than U.S. housing and gold. (Kowalski,2019) For a long time, it was a substantial investment. But since Uber came to New York, the medallion value has dropped an incredible 90% in five years. (LondonPhD, 2018) So, one can see Uber's market entrance had important effects on the valuation of these medallions. So, based on that observation, one could assume that Uber destroyed the taxi industry. But it is important to consider that according to Schneider (2017, p.39), every new market entrance impacts the market share of those already in the market. Even though the medallion prices decreased by a lot, they did not completely fall to zero. They still have value and are still marketable. Another scale by which one can measure Uber's impact as an agent of creative destruction is if it has set a new standard for a type of activity, and therefore changed how a given industry works. Uber did not change taxicabs, buses, subways "regarding whom these regard as their costumers" (Schneider, 2017). These companies still employ their own people, focusing on the person seeking transportation as the sole customer. For all providers of transportation services,

the customer is the person wanting to be transported. For Uber, on the other hand, it is both the driver as well as the rider. Uber's activities did not change the understanding of customers by other transportation services. Here again, Uber did not creatively destroy the industry. But other agents started to offer much more convenience to their customers due to Uber. Taxicabs are adopting apps, technology-based hailing, price estimates, location trackers, and information regarding quality. Buses and subways also started asking for customer feedback, update the status of routes, notify their customers in case of delay and sell tickets through apps. According to Schneider (2017), one can say that no taxicab will sustain itself without offering more convenience- at least not in the same areas in which Uber is operating. In this regard, Uber creatively destroyed the industry. But according to Schneider (2017, p.42), there is a third scale, which is the impact on the overall economy. There is an expression called "Uberization" that describes how other businesses and types of activities have changed by adopting principles of Uber. This is important because if Uber sets a new standard for technology startups or how businesses are understood, then it would be a case of creative destruction. Uberization is understood as "the business practice of offering services directly to customers via mobile technology (typically a smartphone app)." ("How Uber grows its popularity with this simple strategy," 2020)

As discussed above, some businesses are being radically changed by "Uberization." But, according to Schneider, some market processes were "Uberized" before Uber. As an example, he takes agricultural goods (Schneider, 2017, p.43). Here, one can see that Uber is nothing new regarding the phenotype and did not invent "Uberization." According to Schneider (2017, p.43), two points can be made. First, Uber shows that the transformation of certain businesses into or through platforms is simpler than many think. Secondly, Uber made the transformation of certain businesses into or through platforms better known. Uber translated the notion of intermediating excess and idle capacity into an easy term that can be understood by everyone at both ends of the intermediation, possibly as an advantage and in association with Uber: "Uberization." (Schneider, 2017, p.43)

## **Conclusion**

To summarize, Uber has undoubtedly affected the ride-sharing industry. The company brought platform technology to transportation and through its benefits, other agents had to become more

convenient in order to survive. All in all, according to all these aspects discussed above, Uber is partially an agent of creative destruction, but not the perfect example that it sets out to be.

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# Creative Destruction: A Netflix Case Study

*Tobias Krauth*

## Introduction

The economic development is becoming more and more dynamic. The acceleration of the change across most industries is subject to research and a daily reality for all practitioners. This trend is fueled by international trade and collaboration due to globalization and technological developments. Many markets became hyper competitive and uncertainty is omnipresent. Disruption is one of the most popular buzzwords and these disruptive innovations put high pressure on all stakeholders. Managers never know when the next big innovation will change their market environment. That is why it became mandatory for many businesses to critically reflect their products, business models and structures at the core. Only by doing that can managers predict the next creative destruction in their industry and adapt to or even foster that scenario.

This analysis of the strategic decision made by the management of Netflix Inc. will serve as a case study to explain the theory of creative destruction.

## Theory

Before the case of Netflix will be analysed this part will deal with information about the theory of creative destruction. The term “creative destruction” originated from Indian philosophy and found its way into the western social sciences through Friedrich Nietzsche. Nietzsche argued that the *Zeitgeist* of a generation could only change in a holistic way if the new *Zeitgeist* destroys the previous one completely. The Austrian-born economist Joseph Alois Schumpeter later shaped the meaning and the importance of the concept of creative destruction in the field of economics. (Reinert & Reinert, 2006)

Schumpeter described creative destruction as a certain type of innovation. A type of innovation that “incessantly revolutionizes the economic structure from within, incessantly destroying the old one and incessantly creating a new one” (Schumpeter, 1942, p. 147). This means that creative destruction does not apply if existing processes, products or structures are merely optimized. Moreover, it is “about the [completely] new commodity, new technology, new source of supply, new type of organization” (Schumpeter, 1942, p. 148). Schumpeter emphasizes that this holistic

change of an industry is only possible if the innovation results in decisive cost or quality advantages for the customers. Therefore, companies which attempt to creatively destruct an existing product or business model need to start changing at their very foundations (Schumpeter, 1942). That new approach to innovation in itself disrupted the theories of economists and the way practitioners have innovated in the past. Before Schumpeter the focus lied on price competition and was gradually broadened through the examination of product quality and marketing. Innovations occurred in the form of process optimization and new forms of industrial organization structure (Schumpeter, 1942). Economic development in general was seen as less dynamic before Schumpeter argued that capitalism only exists in the framework of creative destruction. Because of the continuous change of capitalism in this frame, performance can only be accessed over time and therefore business strategy needs to be formulated in that context too. Due to his fact “the businessman feels himself to be in a competitive environment even if he is alone in his field” (Schumpeter, 1942, p. 149). The realization that capitalism itself is creatively destructed is necessary to fully grasp the importance of continuous innovation which motivates management in the first place to critically question and rethink their products, business model and structures at the core. These theories serve as the basis for the assessment of the strategic decision made by the Netflix management.

## Case

Creative destruction is even more relevant in today’s dynamic and hypercompetitive market environments. The traditional differentiation factors like price, quality and sales effort however, became less important relative to the new strategic approach of doing business in 21st century - the customer value theory. This is especially true for the technology sector in which Netflix operates. The customer value is the perceived value or utility of a company’s offer for the customer. It demands a strict focus on the customer’s needs which often are not easy to determine but a high customer value of an offer is proven to result in competitive advantage (McFarlane & Donovan, 2013). Netflix Inc. is a subscription-based streaming service based in Los Gatos in California. Users can watch a vast selection of films and TV shows online on multiple devices. Netflix is operating in almost all countries worldwide, except in a few countries due to political reasons, offering access to entertainment for over 195 million paying subscribers worldwide. According to the earnings report of the third quarter in 2020 Netflix generated an operating income

of 1.2 billion US-dollars (Netflix, 2020). The success of the company made it America's fastest growing stock price from 2010 to 2015. The most relevant competitor of Netflix is the streaming service amazon prime of amazon.com Inc. which has around 150 million subscribers. Creative destruction is one of the answers to Netflix's success in the last decade. Netflix did not just disrupt its own business model and the entertainment and media industry once but does that continuously throughout the history of the company. It was founded in the year of 1997 by Reed Hastings and Marc Randolph. Back then, the company sold and rented DVDs exclusively. Whilst Netflix was betting on the future of digital video storage many competitors still focussed on video cassettes, which are going to be disrupted by DVDs in the following years (McDonald & Smith-Rowsey, 2016). The business model was the traditional pay-per-rental. Users could browse through an online catalogue of 925 titles which were delivered and returned via postal services. Hastings dropped the sale of DVDs in 1998 already to focus solely on the rental business. In 1999 the founders decided to move to a subscription-only business model. By doing that Netflix became the only DVD rental service that was not claiming late fees. Since those fees usually exceeded the rental costs this change was perceived by customers of Netflix as a service of very high utility. With growing numbers of subscribers the company was able to use long-tail economics for their product catalogue. Instead of focussing on the best selling films, Netflix could offer a wide variety of formats and genres from which Netflix benefited in two ways. On the one hand customers enjoyed the wider range which also served specialised needs. On the other hand popularised Netflix many titles, which had smaller marketing budgets, just by increasing accessibility to the content (McDonald & Smith-Rowsey, 2016). The next disruption is the introduction of the Netflix streaming platform. Although the DVD rental business was maintained, this was the biggest creative destruction in the company's history. Especially the industry was going to be highly influenced by that decision in the following years. Streaming is one of the mega trends in the entertainment and media industry. This is due to the lower costs and the easy process of choosing a content piece and instantly watching it. The streaming-only option could be offered for about half the price of a subscription for DVDs by mail. Whilst DVD sales are declining video streaming is on a continuous upward trend which is expected to keep going in the following years (Statista, 2020). As a first mover with high impact on the customer base Netflix made decisive contributions to the traditional distribution and exhibition models of film and TV shows. The lower overheads, caused by the streaming service, allowed Netflix to invest in an even more specialised choice of



video content and better personalization of the website. This led to an optimized customer experience. The implementation of an algorithm-based recommendation engine similar to the one Amazon is using made navigating the ever growing library of video content. Additionally, Netflix can use this user-generated data to enhance the customer experience even further which also had a big impact on the way Netflix is going to produce its own content in the future. Even on a micro-level did Netflix disrupts Netflix the status quo regularly. By publishing TV shows at once instead of one episode per week did Netflix change the expectation of all customers. This also stood against all assumptions about monetizing digital content, because TV networks traditionally had to motivate their consumers each week to turn on their TV show at the given time (McDonald & Smith-Rowsey, 2016). Netflix diversified the business model vertically in 2012 by transforming the company into a production studio. That way the company can produce and finance their own content starting with TV shows and later on moving to full-length films. The company was able to use the metadata of their subscribers to produce the exact content their audience wanted. The next year made the success of the Netflix studio evident when the company won its first Emmy for the Netflix Originals Series “House of Cards”. In 2016 Netflix produced over 100 films and TV shows which exceeded the output of any other American network or cable channel (Masters, 2016). This ongoing success story is just made possible by creative destruction. The development of the company shows that the management is constantly monitoring the entertainment and media market whilst adopting to and implementing any new technology that is disrupting the market. On this basis Netflix creatively destructed its own business model and the market multiple times.

This high flexibility allows the company to position itself at the forefront of innovation whenever a big shift in the industry is approaching. It is not a coincidence that the strategic decision to focus on streaming correlates with the worldwide spread of broadband connections and the availability of tablets and smartphones.

## Conclusion

This paper explains the theory of creative destruction and the background on which it was developed. The case study further illustrated how the theory can be applied in practice, highlighting how and why it is a relevant topic to research today. The fact that the theory can still be applied in today’s economy proves its validity. Moreover, it got evident that the process of capitalism evolved in the frame of the evolution of creative destruction. Thus, the relevancy of the

idea evolved to and is even higher in today's competitive and dynamic market environments. This leaves several implications for stakeholders in practise. The fast technological change and digitalisation in the entertainment and media industry could only be navigated so successfully by Netflix because the management adhered to the principles of creative destruction. The fact that capitalism itself, markets and stakeholders are processes which underlie constant change was underlined by the number of times Netflix disrupted its own business model and its industry. It implies that strategy formulation needs be made in a long-term context considering that any strategy needs to be questioned and critically reflected at the very core on a regular basis.

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# Social Business: An Evolutionary Approach of Creative Destruction

*Malin Lerch*

## Introduction: Business in the 21st Century

Throughout the past decades there have been continual changes and developments in the economic sector, inter alia caused by social and environmental transformations such as globalization. This has not only evoked the business world to become more interconnected, but has also brought a new perspective to business in terms of social responsibility for both consumer and producer (Yunus, 2010). Furthermore, technological developments and digitalization have created plenty of new forms of business administration & entrepreneurship, such as ecommerce, digital marketing or the creation of apps.

### *Basic Economic Theory*

Almost all of the economical progressions nowadays are entirely focused on profit making. That means that the main objective of the business is to maximize the revenue for the business owner, often without consideration for others (Yunus, 2010). This is because economic models are most certainly based on one-dimensional individuals that have nothing but selfish interests. More precisely, a lot of economic theories reduce human nature to a single interest, namely profit maximization (Yunus, 2010). But humans are multidimensional beings with selfless interests as well. And this is where the concept of social business comes into play.

### *The Fundamentals of Social Business*

A social business describes a new kind of business, which is dedicated to helping others and the opposite approach to the market- dominating profit-making business (Yunus, 2010). Generally speaking, the main objective of a social business is to address and solve a social, economic or environmental problem (Yunus, 2010). More precisely, this business idea builds on the approach to use methods from the private sector to fight global problems. This means that the money invested is solely for the social cause and nonprofit. Certainly, the investor gets back the amount of money originally invested after a certain time, but no dividend (Juneja, 2021). The success of a social business is measured not by the amount of profit, but by the impact it is able to create (e.g., the amount of underfed children) (Yunus, 2010). Nevertheless, a social organization is not

disallowed to make profits, it is even necessary to have a positive revenue in order to guarantee a sustainable, continuous operating within the organization (Juneja, 2021). Therefore, most of the profits will be reinvested into the business, ensuring the social business will not make profits beyond the investment.

## **Social Business as an Approach of Creative Destruction**

The concept of social business has only recently become a subject matter within the international business sphere. Yet, it can be seen as an entirely new economic structure that has the potential to replace the traditional understanding of a profit-making business. The political economist Joseph Schumpeter describes such an evolutionary process in economics as “Creative Destruction” (Schumpeter, 1979).

### *The Principles of Creative Destruction*

First of all, the underlying assumption to Schumpeter’s approach of creative destruction is “that in dealing with capitalism we are dealing with an evolutionary process.” (Schumpeter, 1979, p. 82). This is evident, because economic life largely depends on the social and natural environment and therefore has an evolutionary character that constantly changes. These changes can be revolutions, wars or natural disasters like climate change. What they all have in common is that they alter the motives of economic action (Schumpeter, 1979). Evidently, economic processes are never stationary and dynamically change with the creation of new ways of doing things “that endogenously destroy and replace the old ways.” (Faruk, 2013, p. 181). Significant for these changes are entrepreneurs’ innovations of new goods and services, new markets or new forms of industrial organization (evolving within the global economic trend). Therefore, entrepreneurs embody the essence of economic revolution and new structures, whereby the kind of entrepreneur needed for creative destruction is not accurately defined. Correspondingly, such an entrepreneur can be a capitalist, a corporate manager or a visionary who tries to change the economic structure in order to create novelty (Faruk, 2013).

### *Applying Creative Destruction to Social Business*

The idea of creative destruction evolved after the second world war, when new innovations were framed and implemented by entrepreneurs, causing an increase in economic efficiency (Faruk,

2013). One key assumption of creative destruction is based on Marx's economic theory, in which capitalist evolution is described as the destruction of existing social welfare "through war economic crisis" (Faruk, 2013, p. 281) to ensure that the environment is prepared for the creation of new wealth. Similar to this precondition, Muhammad Yunus claims: "When a crisis is at its deepest, it can offer a huge opportunity. When things fall apart, we can redesign, recast, and rebuild." (Yunus, 2010, p. 14). Therefore, social business as well as creative destruction build on the idea that after crises of any kind, new economic structures are needed that consequently replace the former structures.

As mentioned above, the driving force within creative destruction can be a social entrepreneur equally as it can be a capitalist. A social entrepreneur is a person that comes up with new, innovative ideas that have the potential to solve a community-based problem; meaning the business is for a greater social cause and not just for profit (Yunus, 2010). Therefore, it is reasonable that the subject of innovation is an entrepreneur who establishes a social business, which then creates a commercial change in economic structure. An act of creative destruction.

However, it is crucial to point out the major difference between the two respective approaches. Schumpeter complies his economic theory entirely with capitalism: "The essential point to grasp is that in dealing with capitalism we are dealing with an evolutionary process." (Schumpeter, 1979, p. 82). Yunus, on the other hand, explicitly criticizes the existing concept of capitalism, stating that all crises (e.g., global food crisis, financial crisis, healthcare crisis) are caused by a "fundamental flaw in our theoretical construct of capitalism." (Yunus, 2010, p. 15). He therefore wishes for a new kind of capitalism that is dedicated to social needs and global problems, enhancing the concept of social business. Already about forty years ago, Schumpeter discovered that capitalism is never stationary and a new economic structure can always replace an old one (Schumpeter, 1979). Yunus' vision for a new kind of capitalism is exactly such a fundamental change in the way of thinking about economics, it is a new approach to global business structures and the vision for a sustainable future without poverty. In the following, this chapter will elaborate on the organization "Viva con Agua Sankt Pauli" as an example of social business.

## **The Social Business of Viva con Agua**

The nonprofit association "Viva con Agua de Sankt Pauli" was founded 2006 by the FC St. Pauli soccer player Benjamin Adrion. In accordance with the name of the association, their slogan is

“water for all – all for water” (Viva con Agua, 2021). In the beginning, the organization was solely an international fund-raising network of people and other associations, who collected donations to support clean drinking water projects worldwide. Since the beginning, the institution is entirely dedicated to “WASH- Projects”, which stands for Water, Sanitation and Hygiene and aims at the long- term goal to guarantee all people access to clean drinking water, hygiene facilities and basic sanitation.

In 2010 the association founded the “Viva con Agua Wasser GmbH” as their first part of a social business model (Viva con Agua, 2021). The company sells its own branded mineral water in cooperation with regional water bottles, promoting the social cause and their aid projects.

In 2015, a second social business has been established, called “Goldeimer gGmbH”. They produce environmentally friendly toilet paper, whereby 25 cents of each package are donated to projects from “Welthungerhilfe” (Viva con Agua, 2021). Shortly after, they also started the “Viva con Agua Arts gGmbH” which organizes an annual art and music festival in the Millerntor- Gallery in Hamburg, Germany (Viva con Agua, 2021). “Viva con Agua de Sankt Pauli e.V.” is corresponding co-shareholder, meaning they own certain percentages of the companies mentioned above. However, since the association is nonprofitable, more than 60% of the total revenue is directly invested into project funding abroad. The remaining income is used for administration, public relations or campaign- and educational work (Viva con Agua, 2021). So far, the company’s management of collecting donations and having three social businesses in parallel has enabled viva con agua to keep up with traditional profit- making companies in the economic market. However, their corporate objective differentiates from most competitors: they are not only running a business, but also trying to save lives.

## **Conclusion: The Future of Social Business**

Evaluating the statement whether social business is an evolutionary approach of creative destruction or not, this chapter discovered the similarities and differences between the two respective theories. Social business presents a new, evolutionary economic approach that might be a long-term solution to fight humanity’s increasing social and environmental crises. Viva con agua serves as a strong example for a successful social business model. They have effectively built up several social businesses, fighting for billions of people that do not have access to clean drinking water (Viva con Agua, 2021). The company’s vision is for the greater good of humankind and

shows how a new way of thinking about economics can improve the lives and fulfill the basic needs of billions of people worldwide.

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# Blockchain: Digital Revolution in Logistics

*Panida Naowarat*

## Introduction

Nowadays, there are many new emerging technologies aiming to solve problems in society. Some of these technologies might fail to answer the needs of society, however, some technologies might massively change the world and lead to the beginning of a new technological era. Recently, there has been a new revolutionary technology that extensively attracted the world's attention; "Blockchain" technology. Its most successful implementation that triggered the technologists to think of its potential is "Bitcoin", the world's first cryptocurrency (Hellani et al., 2018). Bitcoin has succeeded with its capital growth value more than 60,000 times compared to its first appearance value (Zile et al., 2018). However, Blockchain's potential is not limited only to cryptocurrencies or financial sectors, it can also be implemented in other applications as well.

## Blockchain Technology and How It Works?

Blockchain is a distributed ledger that can record transaction data between parties in a secure and permanent way (DHL, 2018). It works as a database for encrypted digital transaction that store each transaction data as a "Block" and link to other blocks of data as a "Chain", either in a linear, or chronological order (Kitsantas et al., 2019). The main concept of Blockchain is that everyone in the network has access to the last transactions data since the last block was added (Bogart et al. 2015). The database is linked to everyone in the party, this helps removing the need for a third party to validate or confirm transactions (DHL, 2018). This decentralized idea also helps create the opportunities for direct transactions between non-intermediary and intermediary services (Tapscott et al., 2016). All the data and transactions stored in the blockchain cannot be interfered, tempered, or deleted as it is a distributed database, unlike a traditional centralized database (Kitsantas et al., 2019). All the data and transactions in the Blockchain will be time stamped and linked to other data blocks in the database, using a cryptographic signature. Once the data or transactions are verified and recorded in the database, no one can modify, interfere, or temper it, even the system administrator (Kitsantas et al., 2019).

## *Types of Blockchain*

Blockchain can be categorized into three categories, namely, Public Blockchain, Private Blockchain and Consortium Blockchain (Buterin, 2015).

### **Public Blockchain**

Public Blockchain is mostly known because of its implementation in Bitcoin, and Ethereum. This type of Blockchain is open to the world and every transaction in a Public Blockchain is visible to the public (Zheng et al., 2017). This makes it extremely hard to tamper with the data as Public Blockchain is fully decentralized. The other advantage of this type of Blockchain is that it requires low investment as there is no need for one's own server. However, all the information can be seen in the public and therefore might not suit well for private organizations.

### **Private Blockchain**

Private Blockchain can therefore fulfill the usage purposes of private organizations as Private Blockchain is fully centralized by one organization (Zheng et al., 2017). This type of Blockchain is created to be used within the organization as a closed network with restrictions. Only those who have access can see the data in the Private Blockchain. This is suited very well for the organizations that require high data security. However, the organizations must create their own systems or servers to implement this type of Blockchain.

### **Consortium Blockchain**

Consortium Blockchain is however constructed by several organizations so it can be considered as partially decentralized (Zheng et al., 2017). This type of Blockchain combined the ideas of Public Blockchain and Private Blockchain. Consortium Blockchain is most suited for organizations with alliances or partners that need to transfer data between each other. This type of Blockchain requires lower resources compared to Private Blockchain and can eliminate the problem that some restricted data might be seen by the Public if they are using Public Blockchain, as only selected users can access the data. However, the restriction might not be easily adjusted as it needs all the party's agreements.

## **DHL and Its Blockchain Implementation**

As stated above, Blockchain potential is not limited just to financial sectors. DHL, the global market leader in the logistics industry, just recently proved that by implementing Blockchain in its business (DHL, 2018). “Achieving excellence in logistics involves working collaboratively with others to optimize the flow of physical goods as well as the complex flow of information and financial transactions” (DHL, 2018, p. 12). As global supply chain is a complex process of creation and distribution of goods (Tijan et al., 2019). The process has a high number of stakeholders, many phases, many geographical locations and much more, which lead to more complexity, low transparency, and unstandardized processes (DHL, 2018). This increases difficulty to trace and track the goods while it is in the supply chain process which can also cause problems in global trade. However, these problems can easily be solved by using Blockchain technology. Blockchain can help enable data transparency and security, plus, it can be accessed among the involved parties, making it impossible for the data to be interfered or tampered with. Blockchain can help reduce many problems in global trade logistics, namely, procurement, management, tracking of goods, customs, or even financial transactions (Tijan et al., 2019). This results in faster, leaner, more automated, and error-free logistics processes in global trade (DHL, 2018). Moreover, Blockchain helps making the system more transparent resulting in improvement of transparency and traceability in supply chains (Tijan et al., 2019). Also, “data about how goods are made, where they come from, and how they are managed; this information is stored in the blockchain-based system” (DHL, 2018, p. 14). Furthermore, with the help of smart contracts, digitalized documents, and real-time shipping data in Blockchain systems, commercial processes in logistics can be automated and are much faster than before (DHL, 2018). Blockchain also promises a high potential for many opportunities in the future as mentioned that “Blockchain technology possesses the potential for creation of new logistics services, as well as new business models” (Tijan et al., 2019, p. 1).

## **Blockchain and Its Challenges in Logistics**

Blockchain technology is not perfect and without fault. Like any other emerging technology, Blockchain also faces some challenges. According to DHL (2018), acquiring industry adoption is the toughest challenge and this is the key point to evaluate the success of blockchain technology in logistics. It is undeniable that implementing new technology will make it at first difficult to gain

stakeholders commitment because of the differences, and common understanding in the mutual benefits. Moreover, it is also difficult for the organization to change from legacy processes, policies, and organizational cultures to adapt to new technologies and practices. Also, when implementing technology, the organization must try to develop and overcome technical limitations, such as high latency, high power consumption, etc. Further challenges include future standards and regulations. There will, of course, be more Blockchains occurring. However, the standards, regulations and agreements should be set to avoid possible problems in the future.

## Conclusion

Blockchain technology has its basic concept as a decentralized database to eliminate third parties, while creating more transparent and secured transactions. This concept helps create more opportunities in the business world. Blockchain is mostly developed and used in financial businesses. However, DHL has shown the potential of Blockchain in logistics businesses. Similar to many newly emerging technologies, there are still some challenges to overcome. Although the implementation of Blockchain in logistics businesses is still in its early period, it is undeniable that Blockchain has high potential for many possibilities in all industries.

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## The Netflix Effect: An Example for Joseph Schumpeter's Creative Destruction

*Johanna Mau*

This chapter aims to explain Joseph Schumpeter's concept of creative destruction.

The theory will be explained by the online video streaming service Netflix, which innovative approach led video tape, disc rental and blockbuster to extinction.

### Creative Destruction

The term "Creative destruction" was first used and coined by Austrian economist Joseph Schumpeter in the early 1940s to express the dismantling of establishments in order to make way for new methods of production (Catloth, 2019).

Schumpeter's idea of this concept was influenced by Karl Marx' and Frederick Engels' work "The Communist Manifesto", which criticized the bourgeoisie for its "*constant revolutionizing of production (and) uninterrupted disturbance of all social conditions*" (Marx/Engels, 1848, p. 16).

Marx and Engels believed that destruction and capitalist crises would lead to a downfall while Joseph Schumpeter saw it as necessary for enabling new market opportunities (Pettinger, 2018).

In his view, capitalism is an innovative process that is dynamic and always changing.

*"Capitalism (...) is by nature a form or method of economic change and not only never is but never can be stationary. (...) The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new*

*forms of industrial organization that capitalist enterprise creates."* (Schumpeter, 1942, as cited in Pettinger, 2018).

In Schumpeter's belief creative destruction is "*the essential fact about capitalism*" (Schumpeter, 1942, as cited in Creative Destruction And Its Impact On Market Planning, n.d.).

Creative destruction is the mechanism in which existing paradigms and existing ideas are challenged by a set of new ideas and processes (Creative Destruction Schumpeter: Definition, 2020) and long-standing practices get destroyed to make way for new innovation to increase productivity.



The the concept of economy is created on the principles of demand and supply, where competition has an effect on the market prices. Entrepreneurs, new ideas and processes will naturally create disequilibrium and highlight new profit opportunities, while producers and workers committed to the older technology will inevitably get put out of business and became redundant (Kopp, 2019).

The mainstream economists agree with Schumpeter's theory of creative destruction (Juneja, n.d.). However, Schumpeter's theory has also been open to several criticisms. One of them is that a free-market economy allows any unprofitable company to go out of business followed by many job losses, whatever the consequences. Even though Joseph Schumpeter believed that this outcome is necessary for the economy, not only to achieve improvements in quality of life and new solutions, but also to reach a greater economic growth (Catloth, 2019), some argue that this process of creative destruction does not automatically causes an improvement of the economy, but can lead to long- term damages in the economy and needs to be more carefully managed (Pettinger, 2018).

### **Netflix Inc.**

Netflix, Inc. is an American OTT media service and production company, that was founded in 1997 by Mark Randolph and Reed Hastings and is headquartered in Las Gator, California, with offices in Europe, Middle East, Africa, Asia Pacific, The United States and Latin America.

The primary business of the company is a subscription based streaming service, that offers online streaming from a wide variety of television series, movies and documentaries, as well as those that are produced in-house.

The company's starting business model included a DVD rental system and sales in the United States by air mail.

In 1999, the founder of the company focused on the initial DVD rental business with an subscription service, which offered members DVD rentals with no limits.

In 2007, the company developed its business by introducing streaming media to their service while retaining the DVD rental business, making it one of the first platforms to offer the service of streaming media. Netflix expanded internationally in 2010 with streaming in Canada, followed by Latin America and the Carrabeen in 2011. Since 2013, the Company has taken more of an active role as a producer and has created a variety of "Netflix Original" television series and films, which are exclusively available on Netflix.

By 2016 the streaming platform was available in more than 190 countries and 21 languages.

In the same year, Netflix introduced the download feature to their service for “offline and on-the-go-viewing” ([www.netflix.com](http://www.netflix.com)).

Netflix is available in the different pricing options, which differ in monthly costs, the number of screens you can watch at the same time and the number of devices you can have downloads on, as well as the availability of watching in HD and Ultra HD.

Since the company has added in-house production to their online library, Netflix has received several awards, such as Academy Awards and Emmy Awards.

With 201,18 million subscribers in September of 2020 Netflix is the most successful company in the online video streaming industry (Stoll, 2021).

The company’s worth was estimated at 187,3 billion US dollar in April in 2020 (Spangler, 2020). Additional data is retrieved from the company’s website ([www.netflix.com](http://www.netflix.com)).

## **The Netflix Effect**

The accomplishment of Netflix can be used as an example for Joseph Schumpeter’s concept of creative destruction as Netflix became one of the largest video distribution networks on our planet (Perry, 2015).

Before video streaming was invented, Netflix was successful with their entrepreneurial concept of renting DVDs. The company became even more successful after Netflix became one of the first companies to adapt video streaming into its business model, which changed the way how consumers access television series, films or documentaries.

The term “Netflix-effect” is mostly used to describe how Netflix has overthrown disc rental and traditional media industries (along with other online video streaming services) (Kopp, 2019).

According to Perry (2015), there were more than 80,000 employees in the United States by 1985. 14 years later the number more than doubled. The employment in the video rental industry decreased when online video streaming got adapted to concepts of companies such as Netflix in 2007. By May of 2015 there were less than 11,000 employees in the U.S. video tape and disc rental industry, which shows how adapting online video streaming as a new technology service to

a company's concept lead to the downfall of an older technology and with it the workers that became redundant.

The Netflix-effect can also be seen in another chart by Perry (2015). The chart compares the year-to-date stock returns of Netflix (+157%), Disney (+15.3%), CBS (-6.3%), Time-Warner ( -21.5%) and FOX (-22.75%) in 2015. It shows how Netflix not only challenged the video tape and disc rental Industry but also challenges the traditional media industry (Jerry, 2015).

The success of Netflix as a company and with it the term "Netflix-effect" can be drawn to the adaption of online video streaming as a new technology to the company's concept.

Online video streaming challenges existing paradigms and existing ideas with Netflix as the leading company, because of the "*the essential fact about capitalism*" (Schumpeter, 1942, as cited in Creative Destruction And Its Impact On Market Planning, n.d.) also known as Schumpeter's concept of creative destruction and represented by Netflix as a streaming service in the recent years.

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# Creative Destruction: RePack as an Approach for Sustainable Packaging

*Kea Munderloh*

## Introduction

E-commerce is concomitant with its negative environmental impact concerning the generation of packaging waste (Eurostat, 2020b). There are rising concerns around single-use packaging waste, consumers are demanding for more eco-friendly products and services. Companies have to demonstrate that they behave socially responsible and have no option than transforming into a more sustainable business. This challenge of global sustainability has begun to stimulate the process of creative destruction. Businesses are forced to find innovative methods to stay competitive.

This chapter will elaborate on how to address the problem of packaging waste by new innovations by applying the concept of creative destruction to the case of RePack. A company's primary challenge in the consumer economy is to reduce the environmental impact of their products throughout a longer life cycle. Packaging waste represents an urgent problem, enhanced by the fact that online shopping is experiencing a boom (Eurostat, 2020a). The aim of RePack is to tackle the problem by using durable recycled material, thereby reducing waste, CO<sub>2</sub> emissions and moving to a circular model.

## Concept of Creative Destruction

The term creative destruction was first introduced by economist Joseph Schumpeter in 1942 to describe the entrepreneurial process (Schumpeter, 2010). Schumpeter presents a dynamic model of capitalism stating that innovation is the driving force for economic development. Moreover Schumpeter observed that entrepreneurship simultaneously creates something new while destroying something old. According to Schumpeter, the entrepreneur plays an important role by developing innovative ideas. The creative element is that it enables entrepreneurs to succeed through creativity which is the engine of economic progress (Holcombe, 2020). The disruptive factor is that those who want to stay ahead are threatened, because the innovation attracts new

customers and expands their markets, while at the same time taking away potential customers from other companies.

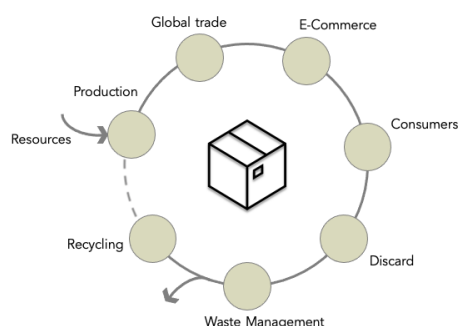
## Applying the Concept to RePack

Innovation has been widely acknowledged as a key mechanism for addressing sustainable development concerns. The concept of eco-innovation was defined by James (1997) as “new products and processes which provide customer and business value but significantly decrease environmental impacts” (p. 53). The continued pressure on businesses is making it mandatory to adjust to the consumers demands to become competitively sustainable in this economy. There should be an innovation to ensure that all the packaging needed can be safely reused, recycled or composted. Furthermore the industry should follow a circular model, ensuring produced packaging remains in the economy and never turns into waste or pollution. RePack provides an environmentally compatible option to disposable packaging products.

It begins with the problem that single-use packaging pursues the linear model as shown in Figure 1, leading to a high amount of waste and high emissions. According to *Eurostat* (2020b), paper and cardboard have been the main packaging waste materials in the past years. A simple solution is transforming into a circular system as illustrated in Figure 2 that closes the loop and includes the recirculation of material input to provide an environmentally alternative. Reuse can save resources and eliminates the necessity to go through polluting waste management processes, such as energy recovery or recycling.

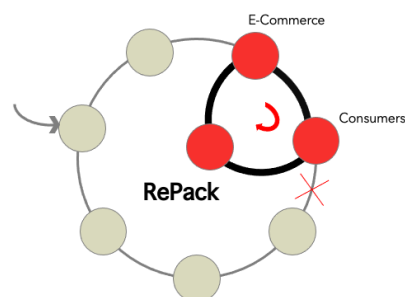
*Figure 1*

*Linear Model*



*Figure 2*

*Circular Model*



Based on RePack (<https://www.repack.com/impact/>)

In this e-book chapter, all the mentioned information about RePack can be found on the company's website: <https://www.repack.com>, especially in the sections "Impact" and "Help Center – Sustainability".

Repack is a packaging service for e-commerce with reusable and returnable delivery packaging which can be reused and simply returned, and then redistributed more than twenty times each before being upcycled. It can be utilized for goods that do not require additional protection. The durable packaging is manufactured from recycled polypropylene and is offered in three adjustable sizes. Compared to disposable packaging, switching to RePack can reduce packaging waste by up to 96% and reduce the carbon footprint by up to 80 %. Reusable packaging avoids the endless misuse of the earth's resources. RePack holds a pioneering position since 2011. Moreover the brand has won trust and an influence position in the areas of sustainability and e-commerce. More than 100 brands spread across Europe and North America belong to RePacks customers. E-commerce companies can take immediate and effective sustainability measures in a timely manner and the more times the packaging is used, the more sustainable it becomes.

Schumpeter's approach in *Capitalism, Socialism and Democracy* which refers to the dynamic effects of innovation would imply that the rise of a new packaging industry like RePack would be accompanied by the decline and fall of established businesses, namely those based on single-use packaging (Schumpeter, 2010). RePack has made a great contribution towards the society and its environmental impact is much lower compared to the companies producing disposable packaging. It can be seen as a driving force towards a more sustainable development but not necessarily for economic development. Sustainable development is one of the biggest business opportunities in the history of commerce for innovators and entrepreneurs. The industry needs to be restructured along circular lines to turn the idea of sustainability dynamic (Hart, 2005). Nevertheless RePack as a start-up contributes to society by providing many new jobs compared to its revenue and paid taxes. Postal packages permit postal services, that are part of the indispensable social infrastructure.

## Conclusion

The image of a competitive process shown by Schumpeter in his *Capitalism, Socialism and Democracy* is still relevant for today's economy as sustainable development is a crucial process of creative destruction and fully conforms to Schumpeter's framework (Schumpeter, 2010). Eco-



innovation drives companies to what economist Joseph Schumpeter called creative destruction (Hart, 2005). This is enhanced by the growing topic of sustainability.

RePack disrupts the traditional mode of operation of the packaging industry by providing an environmentally friendly alternative to disposable packaging products, just when an increasing number of customers demand sustainable options. Therefore on the one hand RePack complies to the creative part of the concept by switching to a circular model. For each returned RePack, wasteful single-use as well as the need to manufacture a new packaging or to manage its waste is avoided. On the other hand the destroying part only has a minor effect on the leading packaging industry. But by choosing RePack, consumers will reduce the market share of the old portfolio in the future and thereby causing a transformation of existing market structures.

As demonstrated, reusable packaging services have numerous positive effects but since companies have an impact on the environment and consumption is not a carbon neutral activity, there still is an impact. RePack is still in its early stage and there is a lot of space for improvement. For single-use industries, regardless of how hard they try or how high-tech they go, they are not able to reduce the negative impacts any longer. Innovation should be today's absolute priority for companies.

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# Playboy Enterprises: The Epitome of Creative Destruction

*Siphamandla Qwabe*

## Introduction

There is no other term more synonymous with Capitalism as much as creative destruction is. Austrian political economist Joseph Alois Schumpeter first popularized the term creative destruction. According to Schumpeter (1942, p.83), creative destruction is an evolutionary process within capitalism that "revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating the new one."

Whereas classic economic theory largely ignores change, uncertainty, and disequilibrium, the Austrians emphasize innovation, flexibility, and heterogeneity (Jacobson 1992, p. 784). From its inception, Playboy Enterprises has stood the test of time in a volatile market, amid social, religious, and political turmoil to become an established, recognized, international brand.

In order to highlight the thread and role of creative destruction as it relates to the Playboy Enterprises, a historical timeline of the corporation will be the beginning point. The underlying element in all innovation is creativity (Foster & Kaplan, 2001, p.115). Following the Playboy Enterprises' historical timeline, a comprehensive examination of how the managerial tasks are performed within the Playboy Enterprises in relation to creative destruction and how innovation, entrepreneurship is reflected in the corporation's culture.

## Historical Timeline of Playboy Enterprises

The relationship between "newness" and performance within companies and industries is vital (Foster & Kaplan, 2001, p. 48). Playboy's inception as a men's magazine in the early 1950s was a new concept, and the idea of challenging the status quo was and remains revolutionary.

In 1953, Hugh Hefner started what is now known as the Playboy Enterprises in his kitchen table. With a personal investment of 8000 dollars from friends and family, he turned a magazine into an international empire. Hugh Hefner exclaimed that the magazine is mainly about "breaking down barriers and creating a cultural conversation about sexuality and standing up for social justice" (Lopez, 2017). During the first year of publication, Playboy magazine started to set trends within the media industry by connecting and inventing interests for the readers with concepts such as the

*Playmate of The Month, Party Jokes, Social/Political Articles* and simultaneously growing their readership base. Playboy expanded into television, which at the time was revolutionary and the beginning of a new era. The idea of television was meant to solidify Playboy's growing reputation and trend-setting innovation in the entertainment industry. From early on what set apart the Playboy reality show was the social, political commentary. Guests from different cultural backgrounds were integrated into the show during a time when this was frowned upon, and black and white people were segregated mainly. The Playboy brand proliferated, which in turn allowed for expansion and venturing into new business avenues.

In 1960 the first Playboy Club was opened in Chicago. Within a year, the Playboy Enterprises had night clubs all across America, including Boston, Miami, Baltimore, Cincinnati, Los Angeles, and New York, and including many more cities across America. Furthermore, internationally with locations in Montreal, Jamaica, and a different location in London, which became a Casino under the Playboy empire. Hugh Hefner when asked why Playboy was now expanding into night-life, entertainment, he exclaimed: that the 'Playboy Club' was born from a simple concept of "the pages of the magazine coming to life" (Lopez, 2017).

With many night clubs under the Playboy empire opening all across America, the concept of exclusive membership was born to give readers the chance to experience first-hand the magazine in tangible form. Exclusive memberships were sold in the form of keyholders, this drove the demand, and people paid to be part of the Playboy Members Club.

In the early '70s, Playboy grew even more significant, opening luxury vacation resort, investing in real estate, and started branching out into motion pictures, television and production. At this point, the Playboy Enterprises was well established and a recognizable brand globally.

By the time Playboy went public as a company, Playboy had already established itself as an international powerhouse with multiple subsidiaries under the Playboy Enterprises, which now included a record label, a publishing company, a limousine service company. Further, it opened four more casinos across England and an international subdivision for the magazine with numerous branches across Europe.

## Management and Entrepreneurship

The process of creative destruction involves adding, eliminating, and redeploying employees at many different levels and causes flux in the interfaces between hierarchical levels, while traditional authority-based relationships give way to the influences of market-based elements (Croson & Nolan, 1995, p.17). From the beginning, Playboy's management style has always been unorthodox. Playboy applied a consultative-management approach in its first year, where different viewpoints and opinions were considered before every decision.

However, Hugh Hefner had the final decision in all matters concerning content in the magazine and its business operational side. Playboy's hierarchical structure has always been less unorthodox; managers had the freedom to contribute freely and were encouraged to be innovative and think outside the box. When Playboy began to succeed at an unprecedented pace, from early on, Hugh Hefner sought out better skilled and qualified managers to give Playboy the competitive edge it needed over the competition. As a result of Playboy's competitive edge and being one step ahead of the competition, Playboy was able to diversify its business strategy by investing in clubs, casinos, resorts, apartment complexes, television shows, records, movies, and publishing. In a classical creative destruction fashion, the restructuring process and innovation at Playboy Enterprises directly contributed to its business expansion and overall financial growth.

The underlying element in all innovation is creativity. Only by understanding creativity can one grapple with what is needed for sustained performance (Foster & Kaplan, 2001, p.115). Playboy emerged on the scene with a fresh, unique business philosophy centered around the idea of "freedom of expression" in all parts of life, including in business. Playboy created the idea of a centerfold picture as famously known today, and it is considered to be simple but yet innovative. A centerfold picture in a magazine refers to the full-size portrait that is in the middle of the magazine. The creative idea of a centerfold is a simple example of thinking outside the box and the continuation in Playboy to find ways to improve its product and its business. For companies to survive in the market, creativity is needed. Playboy's fundamentals are centered around finding creative ways to defy losing in the market but maintain a strong presence in the market.

International competition is an essential factor in business and a fundamental source of creative destruction. With the steady rise of the internet in the early '90s, Playboy Enterprises expanded its

reach into Europe and other parts of the globe. Furthermore, during the '90s, Playboy recreated its entertainment division to attract more of its growing global market.

With the numerous expansions in different businesses and the evolution of Playboy Enterprises as a company, the early days of an unorthodox management style have been replaced with a more apparent hierarchy.

## **Conclusion**

Evidence suggests that when the process of creative destruction is an essential part of a business or a corporation and well adapted to the changing times of the market, there is bound to be more innovation, productivity, and financial growth. In the case of the Playboy Enterprises, it is clear that Playboy as a company and a brand have expanded beyond the confines of the entertainment (magazine) industry because of creative destruction. In the process, more jobs were created, greater prosperity all around, new opportunities for investors and entrepreneurs alike. What constitutes as progress in a healthy economy and a vibrant market is found in the application of creative destruction, where companies are innovative and play an integral part in the economy.

A system, any system economic or other that at every given point of time fully utilizes its possibilities to the best advantage may yet, in the long run, be inferior to a system that does so at no given point of time, because the latter's failure to do so may be a condition for the level or speed of long-run performance (Schumpeter, 1941, p. 83).

In the business world, competition and innovation are key ingredients that drive businesses to perform and develop relevant products and services. Most companies, entrepreneurs thrive best in capitalism, and creative destruction is an essential part of this particular system. The financial market and the business landscape will continue to change, and companies that are best adapted to the market's changing times will indeed survive and prosper exponentially.

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# Creative Destruction and the Netflix Effect

*Jan Philipp Reiling*

## Introduction

To understand the changing economic structure of capitalism one must consider the concept of creative destruction, which is explained in this book chapter by connecting the concept to Netflix, a company that redefined the way we watch movies in the 21<sup>st</sup> century, thereby coining the so-called Netflix Effect.

## Creative Destruction

### *History of Creative Destruction*

Creation and destruction is a very old concept that has already been present in Hinduism and was brought to Nietzsche's attention through his educator Arthur Schopenhauer. Nietzsche developed the idea of creative destruction further as published in "Also sprach Zarathustra": "Whoever must be a creator always annihilates"<sup>3</sup>. Werner Sombart, influenced by Nietzsche, then introduced this concept to economics. It is discussed whether this was taken up by Joseph Schumpeter, who then significantly coined the term creative destruction in relation to economics in 1942 by publishing his book "Capitalism, Socialism and Democracy" (Reinert & Reinert, 2006).

### *Concept of Creative Destruction*

Capitalism leads to an economy that "not only never is but never can be stationary" (Schumpeter, 2010, p. 72). The major driving force of economic change is creative destruction. This concept assumes that companies that are unprofitable should go out of business, enabling the resources to move into more efficient businesses. It can be characterized as the "process of industrial mutation [...] that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one" (Schumpeter, 2010, p. 73). Creative destruction is caused by innovations such as new commodities, new ways of production or transportation and the

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<sup>3</sup> "Nietzsche, Friedrich: Also sprach Zarathustra", Retrieved December 30, 2020 from "Deutsches Textarchiv": [http://www.deutschestextarchiv.de/book/view/nietzsche\\_zarathustra01\\_1883?p=88](http://www.deutschestextarchiv.de/book/view/nietzsche_zarathustra01_1883?p=88)

creation of entire new markets and forms of organization. Therefore, the competition that is most important “strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and very lives” (Schumpeter, 2010, p. 74). Such disruptive improvements cause market disequilibrium through which innovators are rewarded with new or higher profit opportunities and less efficient companies end up being unprofitable, which ultimately forces them out of business. In the short-term individuals suffer from job losses, however new jobs are created through economic change. Over decades this process has led to a rise of the real wages which enables today's standard of life. Competition is a ubiquitous threat that companies face which is why they must constantly innovate and adapt to the changing markets in order to remain profitable (Schumpeter, 2010).

## **The Netflix Effect**

A company that did very well in coming up with disruptive innovations is Netflix. To understand how Netflix disrupted the market when it was founded, the market environment has to be considered.

### *Market Environment*

When Netflix was launched by Reed Hastings and Marc Randolph in 1998, Blockbuster was by far the largest video chain with more than 3,500 stores in the United States and an annual revenue of more than 4 billion dollars (Wooldridge et al., 2007). In addition there were some smaller video stores that had very similar business models. When wanting to rent a movie people had to visit one of those stores, choose a movie, rent it for about two to four dollars mostly depending on the release date and then return it within a certain time frame. If that time frame was missed and the movie was returned, late fees applied (Wooldridge et al., 2007).

### *Birth of Netflix*

Circumstances changed in 1998 when Netflix started operations with a new business model by introducing an online version of the pay per rental model. Since Netflix had large distribution centers, it was not limited in space and could therefore offer a lot more titles than traditional movie stores could (Halal, 2012). Netflix only offered DVD's which were then mailed to the customers.

A year later Netflix launched their subscription-based online DVD rental service which offered unlimited DVD rentals, if you did not exceed a certain number of DVD's at once. Consumers paid a monthly rate depending on the number of titles they could simultaneously rent. There neither were due dates, late fees nor monthly rental limits. Customers were able to keep a movie as long as they wanted to<sup>4</sup> (Wooldridge et al., 2007).

It was this new business model by Netflix that caused a market disequilibrium enabling customers to have unlimited access to movies and series without leaving their house. More and more people began to use their services which made Netflix profit from introducing this innovation<sup>4</sup>. Furthermore Netflix continued to innovate by inventing a personalized movie recommendation algorithm called "Cinematch" that accurately offers movies to customers based on previously watched movies and customers ratings and reviews. Thereby customer experience was improved and helped Netflix to grow (Margiono, 2020).

### *Streaming*

As the name "Netflix" implies there may have been a plan to offer movies through the Internet when founded. That is exactly what Netflix did in the year 2007, allowing existing customers in the US instant access to movies and series without additional charge and no need to leave their house or having to wait for the mail. Netflix then partnered up with several consumer electronic brands to enable streaming on platforms such as Playstation, Xbox, Blu-ray players and TV set-top boxes<sup>4</sup>.

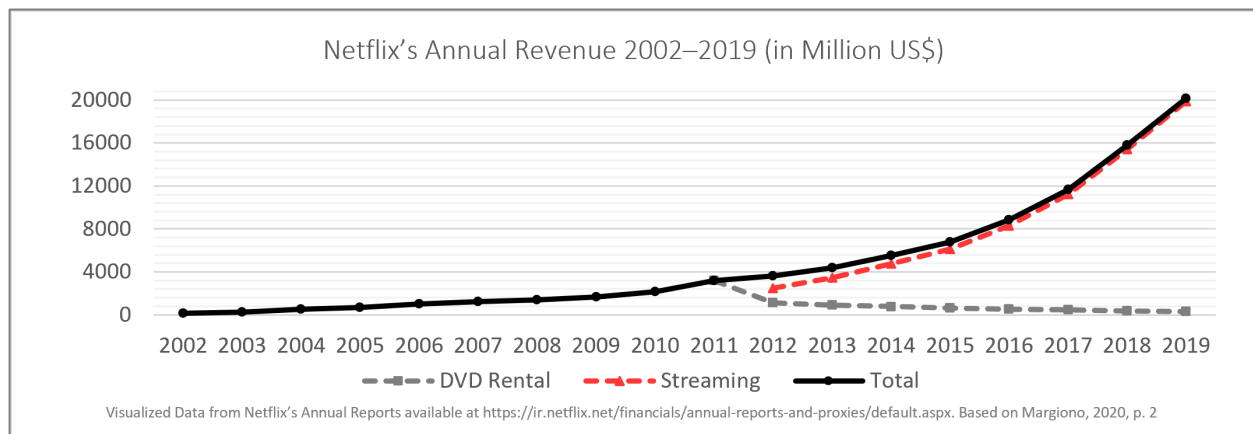
By doing so and constantly coming up with new innovations Netflix struck "not [only] at the margins of the profits and the outputs of the existing firms [such as Blockbuster] but at [their foundations and their very lives]" (Schumpeter, 2010, p. 74). With growth of video on demand streaming creative destruction was in full swing causing traditional movie rental stores to come to a standstill. As traditional movie rental companies like Blockbuster failed to adapt to the changing market they were forced out of business and filed for bankruptcy in 2010 (Wooldridge et al., 2007; Halal, 2012). According to the concept of creative destruction resources of the destructed

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<sup>4</sup> "The Story of Netflix" Retrieved December 30, 2020 from Netflix's Website: <https://about.netflix.com/en>

businesses such as labour were now able to move on to more efficient businesses. By expanding to Canada in 2010 Netflix became the first international movie streaming service.

From then on Netflix expanded rapidly by bringing the streaming service to more than 190 countries in 2016 which drastically increased their annual revenue compared to the DVD rental as seen in the following Figure<sup>4</sup> (Margiono, 2020).



### *Present and Future*

As Netflix expanded they became less dependant on the major film studios (e.g. Universal Pictures, Paramount Pictures, Walt Disney Pictures) by introducing their own “Original’s”. With productions like “House of Cards” and “Orange Is The New Black” they started to win awards and continued to do so over the years as they received 27 Emmys for their productions in 2019<sup>5</sup>. They also changed the way series are watched by the consumers enabling “binge watching” by uploading a whole season of a series at once (Jenner, 2018). Based on co-founder Reed Hastings’ statement in an interview with the New York Times at the DealBook Conference in 2015 that “Flexibility was more important than efficiency over the long term”<sup>6</sup> one could argue that Netflix understands that they must remain flexible in order to adapt to changes in the future market which is one of the lessons creative destruction teaches us.

<sup>5</sup> Retrieved December 30, 2020 from the Statista Website: <https://www.statista.com/statistics/324190/nominations-winners-netflix-original-programs-emmy-awards-usa/>

<sup>6</sup> Interview with Reed Hastings at DealBook Conference 2015 - The Silicon Valley Mindset, Retrieved December 30, 2020 from YouTube: <https://youtu.be/i-4Auh7vgDU?t=1269>

## Conclusion

Taken together the rise of Netflix is an excellent example for creative destruction. By coming up with disruptive technologies and innovations multiple times Netflix dismantled old practices, driving the old movie rental industry out of business, paving the way for improved methods like video on demand streaming. However as Schumpeter noted “competition [...] acts not only when in being but also when it is merely an everpresent threat”(Schumpeter, 2010) which is also true for Netflix as they have to constantly innovate in order not to be driven out of the market by the next even more innovative company.

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# Frischepost: Changing the Food Industry through Regional Products

*Luka Sophie Reimers*

Is it possible to destruct the food industry through putting the focus back on regional products? The following chapter will elaborate if Frischepost is able to do that with their concept. The company's website was used to retrieve data

## The Company

*Frischepost GmbH* is a Hamburg based online grocery store that focuses on fresh produce, products from small manufactures and bakeries from the region. The company was founded by female entrepreneurs, Juliane Willing and Eva Neugebauer in 2015. *Frischepost* currently employs around 90 people at their Hamburg location and has been opening new franchise locations in the Rhein-Main region, Munich and Berlin since the spring of 2020. As the founders' families have a background in and insight into the farming industry, they identified a market gap: direct marketing for farmers<sup>7</sup>. Based on this, they developed their idea further at university and later on founded the company.

## Concept

With their "farm to table" concept, *Frischepost* is taking on the role of a digital farmers market<sup>8</sup> that delivers fresh and sustainable produce, including vegetables, fruits, meat, dairy etc. from the region to the local customer. Only 1/5<sup>th</sup> of the products are not from a radius of 100 km around Hamburg<sup>9</sup>, but from organic and sustainable farmers in Europe. *Frischeposts* intention is to meet the growing demand for regional and sustainable products, by making it effortless and attractive for consumers, following their motto "Morgens geerntet, abends beim Kunden" (harvested in the morning, consumed in the evening)<sup>10</sup>. Moreover, *Frischepost* wants to "build bridges between city

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<sup>7</sup> (Scherkamp, 2016, reason for foundation)

<sup>8</sup> (Willing, 2019, type of business)

<sup>9</sup> (Lemonakis, 2017, food from the field)

<sup>10</sup> (Schoppe, 2020, business model)



and rural life”<sup>11</sup>. Especially small farmers are benefiting from working with *Frischepost* as they get paid fairly and can focus solely on farming practices, while *Frischepost* is taking care of their marketing activities. Primarily their intention is to build a regional network<sup>12</sup> for selected small producers and manufacturers, that comply with their standards, e.g. animal welfare and bio dynamic. Social and ecological responsibility play an important role for *Frischepost*. The regional, seasonal and sustainably produced products are delivered by electric cars with an integrated route planning for an environmentally friendly delivery route. By only storing pre-ordered products food waste is avoided.<sup>13</sup> A deposit return scheme for their packaging reduces plastic waste. By that they are reducing their impact on climate change and have a positive influence on the food industry.

## Business Model

*Frischepost* is in the role of a sustainable digital retailer that ensures the quality of a product by an integrated end-to-end business process, that is directed towards companies (B2B) as well as to private households (B2C). Part of their business model is to not buy ahead and primarily store goods that have already been ordered by a customer. Besides that, their whole business model caters for social responsibility by simultaneously being economically successful as well as growing and supporting the local food industry<sup>14</sup>. By 2020, *Frischepost* was supplying around 11.000 households and 300 business customers<sup>15</sup>. But due to the Corona pandemic most of the business customers fell away. Their customers emphasize regional, sustainable, healthy and fairly priced food and are therefore willing to pay a little more than the regular supermarket price for good quality and the time-saving order/delivery process in return. The product range includes over 2500 products (incl. fresh produce, convenience and drugstore products), from 300 different producers. For business customers *Frischepost* also offers a cashless smart fridge filled with healthy pre-made meals and snacks.

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<sup>11</sup> (Elsässer, 2019, vision)

<sup>12</sup> (Schoppe, 2020, vision)

<sup>13</sup> (WIWIN, business model/digital)

<sup>14</sup> (Neugebauer, 2017, p.24)

<sup>15</sup> (WIWIN, customers)

## Finances

In the first year *Frischepost* was funded through a scholarship, after that by equity and investors<sup>16</sup>. Since 2015 then annual revenue has doubled, which helped the company to become profitable in 2019 at their Hamburg location. In the private sector sales have quintupled since spring 2020.<sup>17</sup> One order from a private customer, is around 74€ with a marginal return of 13€. While, business customers average around 171€ per order with a return of 37€, making them more profitable.

## Market

The market for vegetable boxes is a niche market for consumers that care about regionality and sustainability<sup>18</sup>. However, COVID, with lockdown and closed restaurants caused a shift in the food sector, as many customers started to order their groceries online. Furthermore, the demand for local and organic produce increased.<sup>19</sup> The biggest competitors for *Frischepost* are traditional vegetable boxes from regional farmers, but *Frischepost's* focus on sustainability/regionality and their self-developed web shop with their deposit system differentiates them from similar but large corporation vendors like *Rewe* and the traditional vegetable box.

## Problems

Being a start-up, run by two females, the biggest challenge was the skepticism from the male dominated farming industry and earning their respect<sup>20</sup>. Another challenge was the development of sustainable and reusable packaging. The current challenge is the Corona pandemic, as *Frischeposts* business customer sector decreased massively due to the lockdown.<sup>21</sup>

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<sup>16</sup> (Elsässer.2019, finance)

<sup>17</sup> (Frischepost, 2020)

<sup>18</sup> (Müßgens,2019, market)

<sup>19</sup> (Schoppe,2020. Corona)

<sup>20</sup> (Schoppe, 2020, women in the industry)

<sup>21</sup> (Schoppe, 2020, Corona)

## Future

In the next years *Frischepost* plans to expand their already existing franchise system to more German and European cities. The goal is to become the largest direct marketing platform for regional and sustainable food products by disrupting the traditional food market and changing the food industry towards more transparency, conscious consumerism and decentralized production.<sup>22</sup>

## Creative destruction

The Schumpeterian entrepreneur creates innovation and activities, to meet societal demands and needs,<sup>23</sup> as well as making profit and driving competitors off the market. Through the concept of creative destruction (CD), the entrepreneur innovates a new product/technology, that disrupts the market, by making old products obsolete<sup>24</sup>. That leads to new combinations in the market and investment opportunities, as other companies start to imitate products, which then leads to economic growth.<sup>25</sup> Even if CD at first might cause job losses, in the long-term, capitalisms beneficial impact prevents long term harm to the society<sup>26</sup> (in theory). Long term economic growth happens through a dynamic economy and therefore through CD, as it creates fluctuation.

## Conclusion

Some ideas of CD can be applied to *Frischepost's* business concept. First of all, the female founders are disrupting the male dominated farming industry. As *Frischepost* intends to be socially and environmentally responsible, they are driven by factors outside of making profit. In the long term they want to disrupt and decentralize the standard food industry by creating a regional producer network, which benefits the climate, consumer and small businesses/farmers. However, their idea is not completely destructive, as they are satisfying a niche market, rather than competing with big companies. But the Corona pandemic helped the market destruction as online and contactless shopping becomes more convenient. Moreover, the pandemic showed how important

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<sup>22</sup> (Frischepost, 2020)

<sup>23</sup> (Bruce A. McDaniel, 2005, p.4)

<sup>24</sup> (Komlos, 2016, p.12)

<sup>25</sup> (Neff & Shanklin, 1997, p.33)

<sup>26</sup> (Schubert, 2013, p.236)

it is to build a regional food network, which means less logistic issues due to closed borders. Even though *Frischepost* might not have a completely destructive concept, they are a thriving startup that is planning to spread their mission even more in the next years through further expansions.

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# Apple: Creative Destruction par Excellence?

*Inga Schütte*

## Introduction

### *What is Creative Destruction?*

“The right of any corporation to exist is not perpetual but has to be continuously earned” (Foster & Kaplan, 2001). If firms want to keep and improve their position in the market, they constantly need to innovate, keep track with the market’s pace and simultaneously manage not to lose control of present operations. At first sight, this does not sound like a great challenge but when taking a closer look at the task enterprises have to fulfill on a daily basis – concurrently creating new and destroying old products – it immediately becomes clear, that there is tension between the obligation to invent better or completely new products and to remain competitive in the current market. In the following, the term ‘products’ will be used for processes, products, services and markets.

This process is called “creative destruction” and was first defined in 1942 by Joseph Schumpeter (Harris, 2008, p. 765). It describes the concurrent creation and destruction of products which makes creative destruction a dynamic process as “big business and monopoly cannot remain static for long and (. . .) capitalism is doomed to constantly innovate and evolve” (Harris, 2008, p. 765). Schumpeter derived his idea from Marx’s findings about the imbalance in capitalism. But other than Marx, who saw capitalism as a driver of inequality and exploitation, Schumpeter found its disruptive attributes vital for enabling new market opportunities as it forces corporations to retool. New technologies and innovations that embody a significant cost or quality advantage tend to break apart long-standing structures (Schumpeter, 2010, p. 74). Consequently, competition is crucial for corporations to constantly improve in order to maintain their position in the markets (Schumpeter, 2010, p. 74). Destruction is necessary for progress and development.

A prerequisite for successful innovation and creative destruction is to never assume that the market remains stable, but to recognize that it will keep on moving even if the firm does not. Thus, divergent thinking – entering new domains of decision making – and convergent thinking – falling back to well-known solutions – need to successfully coexist (Foster & Kaplan, 2001). Still, besides

all the positive aspects of innovation and development, creative destruction needs to be criticized because there will always be losers and winners and moreover, workers become obsolete.

### *Exemplary Firms that Suffered and Flourished Due to Creative Destruction*

The famous automobile manufacturer Henry Ford understood the core of creative destruction before it was even known. He did not invent the first motorized vehicle but innovated what was already there and hence, created a revolutionary transport medium and production system – the assembly line. Ford made room for new ideas and most importantly, was open for change.

Nokia contrarily relied on its success and avoided the risk, innovation comes with. The corporation did not pay enough attention to its customers' needs – aesthetic design in combination with strong technology (Halal, 2015, pp. 31f.) – but continued to handle business and innovation the way it always did. Therefore, it stopped remaining a serious competitor. Additionally, the firm applied past solutions to new, upcoming problems. Nokia was solely thinking convergently and did not expect the market to change to its disadvantage. When the corporation recognized its mistake – that it had lost its supremacy in the market – it was too late.

The first iPhone that was about to revolutionize the whole smartphone and technology markets was already launched several years ago. Apple was as clever and attentive as Henry Ford, took a perfectly timed risk (Halal, 2015, pp. 42f.) and profited from Nokia's stagnation.

## **How is Creative Destruction Reflected in the Case of Apple?**

### *Who and What is Apple?*

According to its annual report, Apple Inc. is an international corporation established in 1977 and headquartered in Cupertino, California. It was founded by Steve Jobs, Steve Wozniak and Ronald Wayne. Today, it is led by Timothy D. Cook. Apple sells a variety of electronical devices for the daily use, such as the iPhone, iPad, Mac, Apple Watch, Apple TV or Air Pods. Moreover, it offers services like Apple Care, iCloud and Payment services. At the end of its fiscal year on September 30<sup>th</sup>, 2020, total net sales amounted to \$274,515 million and approximately 147,000 full-time equivalent employees were employed (Apple Inc., 2020, pp. 1f). Apple is well known for innovation, minimalistic design, a simple handling and technological progress. But it has not always led the market since it has already suffered many failures (Halal, 2015, pp. 39f.), some are

owed to Steve Job's perfectionism. This made it unclear for several years if it could survive in the markets. Nevertheless, it is clear today that Apple could effectively use past mistakes to develop strong new products suiting the needs of today's clients.

### *How Did Apple Apply Creative Destruction?*

As stated above, creative destruction is not only about inventing products that never existed before, but also about creating better and more competitive ones from existing structures. Apple has come out to be excellent in this discipline. When Nokia stagnated, Apple took its chance and introduced its first smartphone, the iPhone 2G, touch surface, internet and built-in camera included. "Apple doesn't always do things first. But it almost always does them best" (Griffin & Molloy, 2015). Devices like smartphones or tablets already existed before Apple launched them, but the firm again used its well-known ability to make them the most aesthetic and progressive. New technologies – as they are more competitive – tend to destroy established ones (Halal, 2015, p. 33).

In this case, the creation of the iPhone with its simple design and utilization took over the market and replaced the former market leader Nokia. Apple is constantly expanding its product range and in doing so, the corporation creates incentives for the clients not to change to another brand that could offer better services and products. Apple products incorporate various features and services that work across all devices. For example, the iCloud service enables the users to access their photos and documents on every device. The wireless headphones, the Air Pods which have also been around for several generations, can be connected to any Apple product automatically. Having a product range where all the components are so well matched creates a level of convenience that tempts almost every customer to buy more Apple products (Griffin & Molloy, 2015).

Almost every Apple product disrupts amongst others the music industry, the computer market and parts of the television market, because it makes them obsolete by integrating all these functions into its products. Apple manages to sell comparably small products that open whole new universes of technology and user experience that people love and will continue to love if it attentively continues to identify what they need or should think they need. Latest developments indicate that Apple now also wants to enter the automobile market. With its total net worth of about \$2 trillion, it has enough financial capacities to invest into autonomous driving and electric cars. Here equally, Apple does not invent something new. Cars do already exist, electric cars and autonomous driving as well. But are they convenient, simple, aesthetic and in sync with phones, tablets or watches?



## Outlook

### *Can Apple Continue to Innovate?*

As the iCloud service enables the users to connect all their devices, most of them do not go back to using other brands' products as all Apple products work perfectly together and simplify the overall application tremendously (Griffin & Molloy, 2015). This is an enormous competitive advantage in comparison to brands like Microsoft. Competition is a vital element that makes firms strive for the better and thus, concurrently develop and improve products for example technology or sustainability-wise. Nevertheless, it is essential to maintain competition because otherwise, a company without any competitor would have no need to constantly prove its value and benefits.

To maintain and even improve its performance, Apple's rate of creative destruction needs to be held high as well as the sales of current products (Foster & Kaplan, 2001). Unfortunately, many segments are to be destroyed if Apple continues to successfully innovate and create products incorporating more features annually, that once were nested in other markets. For example, publishers of analogue books or the TV industry will suffer as well if they do not start following the same concept Apple does. If they do not keep up with the market and latest developments, Apple and other progressive brands will remove them from the market. 14 years ago, in January 2007, when the first iPhone ever was launched, Apple set the tone for future design and technology.

Until today, as the constantly increasing sales indicate, clients are satisfied with what the firm has innovated, or in other words: creatively destroyed. "The right of any corporation to exist is not perpetual but has to be continuously earned" (Foster & Kaplan, 2001) and Apple is earning this right on a daily basis.

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# The Nokia Effect: The Destruction of a World Leader

*Jil Philine Seidner*

## Intro

Nokia's downfall represents a harsh economic process described by the Austrian economist Joseph Alois Schumpeter as "Creative Destruction". In his work: "Capitalism, Socialism and Democracy", published in 1942, he states the concept as an evolutionary process controlled by the extinction and emergence of innovations. A further insight on Schumpeter's theory within the case study of Nokia and Apple will be given in the following parts of this eBook Chapter.

## Main

### *Law Student – Economist – Professor*

Born 1883 in Moravia, Joseph Alois Schumpeter grew up in Vienna and studied at the University of Vienna. In the following he became an economy professor in 1909 and the Minister of Finance in 1919 of the Republic of German-Austria. In 1927 he took an on-off position as professor at Harvard which led Schumpeter to move to the USA and becoming an US citizen in 1939. In 1942 he published his most popular work: "Capitalism, Socialism and Democracy" and within the concept of Creative Destruction. (Britannica, 2021)

### *Creative Destruction – The Essential Impulse of Capitalism*

J.A.S. analyses capitalism and states that it must be seen as a process that at no time stops to evolve. The evolution of capitalism through changing, newer products describes what Schumpeter associated with the concept of Creative Destruction. Schumpeter lists several characters involved in the evolutionary process of Creative Destruction. He shows this as the process "that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one" (Schumpeter, 2010, p.73). Besides of capturing new markets also newer products and the consumer's growing demand increase the competition and within the Creative Destruction (Schumpeter, 2010, p.71f.). Overall the concept describes the "mechanism by which new production units replace outdated ones" (Caballero, 210, p.24).

### *The Rise of an Empire – Nokia*

Even before the shift to a world leader of the industry Nokia was an aspiring business for years. After a mislead the new CEO Jorma Ollila started rebuilding Nokia in 1988. He “focussed on profitable growth areas and management of the elements of growth. He stabilized the company's ownership by creating fluent and open relations with shareholders and built a productive top management team while also inspiring employees” (Häikiö, 2002, p.24). In order to become an international leading business in the mobile phone industry Nokia sells all other business operations (Peltonen, 2018, p.168). Between 1992 and 1994 “Nokia rises from the bottom [...], the earnings increase by 385% compared to the previous year, and a staggering 510%” (Peltonen, 2018, p.168). The company grows into the world leader in 1998 (Nokia.com). The change to more efficiency and supervised organisation helps Nokia to overcome several crises but with the rise of Apple and Google new problems occurred.

### *The Revolution – Apple*

Before turning into the leading company on the smartphone market it is today the young smartphone company Apple had to go through some early failures. Prior to their debut iPhone in 2007, CEO Steve Jobs “had spent 12 tumultuous, painful years failing to find a way to make the new company profitable” (Stross, New York Times, 2010). But with his entrepreneurial actions, Jobs turned Apple into the successful technology brand it is today. In 2007 Steve Jobs presents the iPhone – a revolution. Apple’s new product combines a music device and a unique, high developed technology smartphone (Giachetti, 2018, p.23) posing as a new competitor. Giachetti et al. (2018) points out that the iPhone’s revolutionary 3.5-inch touchscreen destroyed key features of other brands like Nokia because it allows for more fun interactions. Additionally, the minimalistic design of the iPhone combined with the special square icons and Apps outplayed other smartphones on the market. By reorganising the marketing and process of sale with exclusive Apple Stores gave the brand an important status (Giachetti, 2018, p.25). But not only the sale should be exclusive, also the product series themselves are exclusively combinable with its own through an “Apple specific” charging connection and features like the Cloud and AirDrop. By introducing one of their products to a new consumer, additional products seem the best choice to buy and therefore eliminates the consideration of other brands. But “Apple’s stores are there not [only] for selling, but for serving” (Savitz, Forbes, 2013). They are aiming for the best customer services and rising

the customer's satisfaction while gathering Data for further improvements (Giachetti, 2018, p.25). And "Although the iPhone is fighting off 90 different smart phones, Apple's sales are growing 60 % annually and reached 146 million iPhones sold in 2011" (Halal, 2012, p.39f.). Besides of their material success Apple can be identified with high consumer satisfaction (Suarez and Kirtley, MITSloan, 2012), covering different needs of their costumers with their variety of products and innovations. Apple's sleek design and unique technology combined with an exclusive marketing and management style outruns long-standing brands like Nokia. The company remains on the leading position on the mobile phone market by having build their own market space as Giachetti (2018) points out in his work.

### *A Fought Fight – Has Nokia Lost against its Attacker?*

There are many perspectives and arguments on what lead to Nokia's slow disappearance starting as Apple introduced their iPhone in 2007. Nokia's managers soon realized that Apples new user-friendly devices with its aesthetic design portrayed their new deathly competitor. With Apple entering the mobile phone market, the new challenge of an "user-friendly world of devices, digital services and software highlights" (Peltonen, 2018, p.181) was introduced. Nokia failed this challenge and relied on their long-time proven approaches and products. Peltonen et al. (2018) points out that the company stagnated by becoming arrogant and relied on their long-lasting success and resources instead of reacting to the growth of their competitor. Nokia's products could not keep up with Apple's ordinary touchscreen and lacked appearance with their dominant physical keyboards. As well as this innovation, Nokia missed the mind and actions of an Entrepreneur like Steve Jobs. On the one hand Jobs lead Apple to some failures with his early creations but on the other hand he was the creative, out of the box thinking mind, willing to take risks for his extraordinary future ideas of the company learning from his own previous mistakes. Nokia continues in it's style of management, meaning a "heaviness and bureaucracy of the organisational structure" (Peltonen, 2018, p.181), making communication and improvement slow. Apple grew their communities with their Apple Stores. This was new to Nokia. The arrangement of contact to their consumers seemed impractical given the fact that Nokia's products were sold in no explicit stores. Over many years Nokia "had been focussing on producing and managing analytical-rational information" (Peltonen, 2018, p.182) to make the best decision but did not seek direct feedback of their customers on their products. And even Apple's new Software iOS overtook the Symbian

Software used by Nokia's products. The design and features welcomed a rapid competition which Nokia did not see coming. All in all, Apple's new "skill of combining a physical device, software and user experience" (Peltonen, 2018, p.181) was overwhelming for Nokia.

## Conclusion

### *Reference Schumpeter – Creative Destruction on Nokia*

Before Apple, Nokia succeeded by focussing its production on their portable mobile phones, the growing demand of their products and the small competition. This led the business at its head position around the turn of century. That changed with a new competitor. Apple created itself a growing market and consumer community with its innovative and user-friendly technology, their marketing strategy and minimalistic design. While the request of Apple's products and their lifestyle grew, Nokia failed to keep up with innovation and their market shares shrank. Apple attacked Nokia and overthrew the incumbent of the mobile phone market. But further it was the interaction between the "attacker and incumbent" (Prof. Dr. M. Wenzel, personal communication, December 18, 2020) that led to the creative destruction of Nokia. Schumpeter et al. (2010) relates to the development of cases like Nokia's as Creative Destruction and the essential fact about capitalism and what every capitalist concern has got to live in. On the one hand Creative Destruction brought an unique Original to an end but on the other hand it created a more innovative and new fascinating global power connecting millions of people around the world with their technology. But still Nokia has more to offer as one may think...

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## Creative Destruction: The Case of Eastman Kodak

*Jurek Urbach*

### Creative Destruction

In 1942, Joseph A. Schumpeter talked about technological advance being the main source of economic growth and trough that of improvement in the quality of life. In his work “Kapitalismus, Sozialismus und Demokratie” (Capitalism, Socialism and Democracy) he popularized the concept of “schöpferische Zerstörung” or Creative Destruction, which he himself derived from the works of Karl Marx. But in contrast to Marx he did not believe it to be the downfall of capitalism but its core principle. Capitalism is a process of development which is not, and could never be stationary. The ever new goods of consumption, methods of transport, new markets and shapes of industrial organization are the fuel of the capitalistic machine and the process of Creative Destruction. (Schumpeter, 1942, p. 115)

Creative Destruction takes time and can never be viewed by only observing a single point in time. A company which uses every advantage it has can succumb one which does not, as the action of not playing to one’s strength can be the deciding factor. But all of this can only be seen by taking the continuous process of Creative destruction into account. (Schumpeter, 1942, p. 116)

Competition, which possesses over the crucial advantage in cost and or quality, does not only strike a company at its profit and production output, but at its foundation.

(Schumpeter, 1942, p. 117-118)

### *Bigger-is-Better & Smaller-is-Better*

In Schumpeter’s original account of Creative Destruction, he argues, that bigger or even monopoly firms are the most likely to produce such pivotal innovations. More recent accounts tend to argue, that the opposite is true. Not only did most of the success stories of the digital age start out as small start-ups, but data from “Creative Destruction” (Richard Foster & Sarah Kaplan, 2001), examining the fate of Forbes 100 largest firms in 1917 and 1987 shows, that only 18 of the top 100 firms in 1917 were still among the top 100 in 1987. Of these 18 firms, only two had a higher than average growth rate. They furthermore examined the average length that, a company would stay in the S&P 500. In the 1920s and 30s, a company would stay an average of 65 years in the S&P 500. That

number changed drastically to around 10 years in 1998, which might indicate, that the process of Creative destruction is speeding up in the US.

These very popular arguments, and Scherer's empirical study in 1965 suggest that: "[...] Schumpeter's assertion in Capitalism, Socialism and Democracy were more wrong than right. Giant monopolistic corporations were not uniquely efficacious engines of technological advance." (F.M. Scherer, 2004, p.394)

### *The Engine of Economic Growth and Quality of Life*

As stated in the introduction of this chapter, Schumpeter (1942) describes Creative Destruction as the main source of economic growth and with that the enhancement of general quality of life. In his Working Paper "Does the "New Economy" Measure Up to the Great Inventions of the Past?" (Robert J. Gordon, 2000) devotes a chapter to his "Group of Five", great clusters of inventions, which vastly improved an ordinary person's quality of life.

Them being, electricity, the internal combustion engine, petroleum, natural gas and various processes which rearrange molecules, entertainment, communication and information innovations and running water, indoor plumbing and urban sanitation structure. The aforementioned clusters had their primary breakthroughs between 1860 and 1900.

### **Eastman Kodak**

"The pace of change in our economy and our culture is accelerating—fueled by global adoption of social, mobile, and other new technologies—and our visibility about the future is declining. From the rise of Facebook to the fall of Blockbuster, [...] predicting what will happen next has gotten exponentially harder." (Robert Safian, 2012)

What Saifan is talking about, does not only still stand true, but has been very much accurate long before he first stated it in his article in "Fast Company". This "visibility" or more specific, the lack of it, is one of the main reasons for Eastman Kodak's downfall.

### *Kodak's Success*

Eastman Kodak is an analog photography company, and was founded by George Eastman and Henry A. Strong in 1888. They based their business model on the Rockefeller principle, by selling

their cameras for a low price, and profiting from the film sales. Their success came from very smart marketing and their immensely popular product. Kodak's first slogan "You press the button, we do the rest." revolutionized ordinary people's relationship with photographs, which were now cheaper and more widely accessible than ever before. They later on coined the slogan "Kodak Moment" to describe every moment worth taking a picture of. Their film "Kodachrome" was so popular, that it, at one point, made up 90% of film sales in the US. 80 best picture Oscar winning movies were shot on Kodachrome, it was used to document the Queen's coronation in 1953, and it was used by Neil Armstrong to shoot lunar closeups on the Apollo 11 mission (Rupert Neate, 2012).

How could a company, which was so widely popular and once employed 145,000 workers go bankrupt?

### *Kodak's Failure*

The case of Eastman Kodak is a great example for Creative Destruction, because of Kodak's downfall resulting directly out of a leapfrogging innovation, the digital camera. The digital camera did not attack Kodak at a price standpoint or with a production problem, but at Kodak's core. Eastman Kodak's core principle, like stated above, was that of Rockefeller. They sold their analog cameras for little money and profited of their immense film sales. Digital cameras would have made film obsolete and thereby destroy their business model.

When, in 1975, the first prototype of the digital camera was invented by Steve Sasson, an Eastman Kodak employee, they were "afraid to invest" said Oliver Laurent in the Guardian (2012)

To fully understand this decision one must understand, that there are two types of innovation, as defined in "The Innovator's Dilemma" (Christensen, 1997). Sustaining innovations will be valued by the mainstream customer of a specific company, while a disruptive innovation will not initially appeal to the mainstream customer. He furthermore states, that disruptive innovations tend to underperform what the mainstream customer wants.

The digital camera being a disruptive innovation did exactly that. It weighed about 3.6 kg and had to be held perfectly still for 23 seconds, while only producing a 0.01 megapixel black and white image.

"When they realized the digital market was here to stay, it had overtaken film, and all Kodak's competitors had far superior digital cameras. Kodak's were never as good and the company lost its 'Kodak moment' reputation as the best in the business." said Olivier Laurent, news editor of the British Journal of Photography, in the Guardian (2012).

Still, in 2005 Kodak was the market leader in digital cameras with 22.1% even though closely followed by Canon, with 20.6% (Matin Fiutak, 2005). In 2010, they were in 5<sup>th</sup> place with 7.4% (Kazuyo Sawa & Mariko Yasu, 2011). After trying to switch to producing consumer printers, they filed for bankruptcy in 2012. In those last years especially after 2010, the digital compact market took a large hit, because of the next big leapfrogging innovation, the smartphone, because like Olivier Laurent said in 2012 "Why have a compact camera when an 8 megapixels iPhone is almost as good, and it's always there in your pocket?"

## Conclusion

Schumpeter believed Creative Destruction to be the leading force in economic growth and improvements in life and it therefore not only being pivotal for capitalism, but for innovation in general. This core believe can be confirmed after looking into the aforementioned evidence and empirical studies. Furthermore, there are many case studies which strongly suggest the importance of Creative Destruction, like the Eastman Kodak case.

Although evidence suggests his bigger-is-better account not to be totally accurate, the smaller-is-better might also not be the only right theory, even though the Kodak case shows, how hard it can be to have disruptive innovations in a big firm.

Creative Destruction seems to be immensely important and only to be getting faster. For this reason it should be researched and shifted more, towards a mainstream.

Some questions are still to be answered for example, how big of an influence Creative Destruction has and what effect it has on the workers.

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# **The Alibaba Group and Schumpeter's Model of Entrepreneurship**

*Hannah Charlotte Wierschula*

## **Introduction**

This book chapter will illustrate the key elements of Joseph Alios Schumpeter's model of entrepreneurship by using the example of the company Alibaba Group Holding Limited. The company information is collected data from the official company website, ([www.alibabagroup.com](http://www.alibabagroup.com)), including press releases, if not cited from a different source.

## **The Alibaba Group**

Alibaba Group Holding Limited is a Chinese company founded in 1999 by 18 individuals. The core business and services surround wholesale and retail e-commerce such as Alibaba.com and Taobao. A leading role among the founding members and for many years driving force of the company was Ma Yun. His idea of connecting China and the Chinese economy with the world through the internet, was central in the first business venture Alibaba.com. The business-to-business wholesale marketplace connects Chinese suppliers with buyers from overseas. The same concept was applied on 1688.com while limiting business interactions to China. During the early 2000s, the company was quick to introduce new business ventures such as Taobao Marketplace, a business-to-customer online shopping platform and Alipay, an online-payment platform. The company established its position of power in e-commerce by launching several platforms, such as Tmall and Tmall Global, which promoted international trade between consumers and sellers. By offering various service and entertainment platforms outside the core business, the company additionally expanded into a wide variety of business sectors. The vision of the management team was to create "an ecosystem: a community of organisms". "(The) (...) strategic imperative was to make sure that the platform provided all the resources, or access to the resources, that an online business would need to succeed, and hence supported the evolution of the ecosystem." (Zeng, 2018). This ecosystem is realized by an infrastructure which includes logistics for the core businesses and retail initiatives. Furthermore, marketing services, data management platforms, payment and financial services provided by Ant Group, and technology and systems provided by Alibaba Cloud embody the resources of this ecosystem.



Today, Alibaba has over 120.000 employees worldwide and the current CEO and Chief Executive Officer is Daniel Zhang. In the fiscal year 2020, Alibaba reached a total revenue of RMB 509.7 billion with 780 million consumers in China and over 180 million consumers outside of China.

## Schumpeter's Model of Entrepreneurship

Joseph Alois Schumpeter (1883 to 1950) (Bundeszentrale für politische Bildung, 2016) is commonly regarded as “(...) the first major economist who developed a major theory of entrepreneurship.” (Swedberg, 2009, p. 78) In his later work he defined the term ‘creative destruction’, the process behind entrepreneurship and entrepreneurial outcomes.

The center and driving force of the creative destruction is the entrepreneur or the entrepreneurial motivation. According to Schumpeter (1934, p.93): all or one of the following characteristics generate the motivation a dream or will to found a private kingdom or dynasty; the will to conquer which includes an impulse to fight and proving of one's superiority over others; to succeed for the sake of success; the joy of creating.

Innovations or new combinations emerge from this concept and are differentiated into five types:

- “1. *‘the introduction a new good’*
2. *‘the introduction of a new method of production’*
3. *‘the introduction of a new market’*
4. *‘the conquest of a new source of raw materials or half-manufactured goods’*
5. *‘the carrying out of a new organisation of any industry’ (Schumpeter, 1934: 66).”*  
(Swedberg, 2009, p. 80)

The overcoming of resistance when introducing a newly invented combination is part of this process. “Schumpeter explicitly uses the term ‘resistance’ in *The Theory of Economic Development*, and describes it with such terms as ‘tradition’, ‘routine’ and ‘social habits and conventions’ (Schumpeter, 1934: 84, 91–2). Resistance can be found in the entrepreneur's mind as well as in ‘the social environment’ (Schumpeter, 1934: 86). When linked to an interest, resistance is strengthened.” (Swedberg, 2009, p. 81). As highlighted by Swedberg, it is very important to differentiate between innovations and inventions “(...) (as) an invention constitutes a discovery, (...) while an innovation represents a successful attempt at economic exploitation.” (Swedberg, 2009, p. 80) This leads to the key element ‘entrepreneurial profit’ (Schumpeter, 1934). Making profit with the new introduced innovation is seen as the key valuation for a successful

combination. “In a capitalist economy an innovation that does not make a profit is not an innovation.” (Swedberg, 2009, p. 81). The last element has a direct impact on the economy because “Individual acts of entrepreneurship set off wavelike macro changes in the economy (...)” (Swedberg 2009, p. 81). This element will not be considered in the following case study as it is a focus on a company and not an economy.

### **Schumpeter’s Entrepreneurship Applied to the Alibaba Group**

Entrepreneurial spirit can be found in many aspects of Alibaba’s company history. Ma Yun launched China’s first website, China Business Page, in 1995. It displayed information of Chinese Businesses. The concept is similar to the four years later established Alibaba.com but was less successful as most companies had never heard of websites. (Greeven & Wei, 2017) The later established Taobao was a reaction to eBay’s entry into the Chinese market. As a well-established company in the field of e-commerce, eBay was the biggest competitor in China. The reasons for Taobao’s success over eBay were rooted in focusing on staying unique and adapted to the Chinese market. Taobao combined innovative customer service and free listings for companies instead of assimilating to eBay’s strategy. (Greeven & Wei, 2017) These actions mirror Schumpeter’s characterization. The spirit was carried into 2017, when the management team made the decision to create a business ecosystem. (Zeng, 2018). A business ecosystem is an organizational form where the single businesses are independent units with various equity relationships, offering customer-centric products and services which often complement each other. (Greeven & Wei, 2017) Alibaba’s ecosystem is attained by coordinating online network and machine learning technology in real time; this creates smart businesses or business groups which efficiently leverage the data available. (Zeng, 2018). In addition, Ant Group provides financial services, to consumers and businesses and therefore connects all businesses ventures inside and outside of Alibaba’s ecosystem, when many business interactions take place. This is emphasized by Zeng with Ant Microloans. The company determines a company’s credit score by analyzing every action, including communication and transaction behavior, in real time. The same concept can be transferred to Huabei, which offers online consumer loans. Alipay (online payment platform) is essential to all businesses or customers in the ecosystem, as it can be used for any essential payment transaction inside the ecosystem. (Greeven & Wei, 2017). Alibaba uses business and consumer real-time data as a new raw material. Artificial intelligence, machine learning, and cloud

computing produce operating decisions that enhance and facilitate business-to-business and customer-to-customer and business-to-customer interactions in a new form of organization where businesses are interconnected with but also interdependent. With the introduction of Alipay, the company introduced the first online third-party payment platform in China and created a base for internet finance in 2004, when cash was the preferred method of payment. (Greeven & Wei, 2017). Ultimately, the ecosystem itself contains all five types of innovation in Schumpeter's model as shown in Figure 1.

New raw material:	Real-time business and consumer data
New method of production:	Cloud computing + machine learning + artificial intelligence = operating decisions
New organization:	Ecosystem of businesses: interconnected + interdependent businesses
New good:	New market: online third-party payment method
New market:	Internet finance sector

*Figure 1. Schumpeter's five types of innovation reflected in Alibaba's ecosystem.*

In terms of resistance, creating new combinations consequently means that old ones are either exchanged or less relevant for economic actors and society. Thus, the newly introduced combination has overcome resistances in form of the traditions, routines or social habits and conventions mentioned by Schumpeter, but also changed them. In the case of Alibaba, one example is the use of Alipay instead of cash payment and the large number of consumers, changing from offline to online consumption. The triumph of Alibaba's innovations is confirmed by its economic success.

## Conclusion

Schumpeter's model can be applied to different units of Alibaba. The ecosystem itself might be the main innovation but the complexity and diversity of Alibaba's business ventures allowed a multifaceted approach. Smart businesses are a natural part of the created ecosystems. This

potentially creates synergy effects pushing the development of the ecosystem. The innovations created for or inside the ecosystem, such as Alibaba Cloud, might not be technologically new, but the nature and extent of integration into existing systems is.

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



## **The Evolutionary Theory: Remazing**

*Johanna Andruck*

In the case of the years economists have developed different approaches to explain the way of companies' success. The Evolutionary Theory is one of them. This paper introduces the essentials and shows how they can be traced in a young company like Remazing, an online marketing agency from Hamburg.

### **Evolutionary Theory as a Business Strategy Approach**

The Evolutionary Theory implements the system of natural selection on the economic market and the competence to adapt to "external circumstances" (Nelson and Winter, 1982, p.12) successfully and easily. The theory has its name from the world-famous Theory of Evolution of Charles Darwin (Nelson and Winter, 1982, p.11). His theory presumes that all life on earth is linked with each other. Genetic mutations crop up in a genetic code of an individual organism. These mutations will be passed on to next generations if they are proofed to secure the survival. This process is called natural selection. Natural selection makes use of the beneficial genetic mutations of organism to develop and evolve the genes to a better or maybe even completely new species to compete better in the environment. The species who do not go with the change will die out (Anonymous. n.d.).

This theory was transferred to economics by Sydney G. Winter and Richard R. Nelson. They claim that a company can develop by learning from experiences but also from failures. Hence, a company has to adapt to its environment to do not lose track of the permanently changing environment on the economic market. In Darwin's Theory of Evolution the changing features were called beneficial mutations in the genes and in the economical version they call this "routine" (Nelson and Winter, 1982, p.14). Routines are the continuing characteristics of companies which define their behavior. They describe features how the company deals with different things in different situations, e.g. when it comes to marketing strategies, human resource management or the production decisions. These routines are "heritable" (Nelson and Winter, 1982, p.14) like genes in an organism. If they bring forward proof they will gain more importance over time and will remain and survive in the company's culture and characteristics. At the same time they can be the start of new ideas and system restructuring. Only the successful ones will persist and others, however, will go extinct (Nelson and Winter, 1982, p.14 and 15).



The growth rate strongly depends on the firms' "genes", its features and characteristics (Nelson and Winter, 1982, p.17).

Modification is an important term in this context because it is vital to change over time and to realize which path the company should take. (Nelson and Winter, 1990, p.17)

Further to structural development Evolutionary Theory explains why companies are motivated by profit but not by profit-maximization. This simply means that a company tries to achieve an adequate profit e.g. to pay appropriate wages and have some funds left to invest in new projects (Nelson and Winter, 1982, p.31).

To improve the profit is not the only motivation, there is still competition in an economic environment. It is the instinct of survival that forces companies to outperform competitors. The pressure of competition forces them into innovation and change. Those who do not adapt may get into danger that their rivals outdo them (Nelson and Winter, 1982, p.32).

Different offers are available in the free market for all the customers, so there is variation. Customers are free to choose which product or service from which company they are going to use. This means that firms selected by the consumer can increase their revenues. Only companies with enough profit will have the chance to survive. This constantly pushes them to more efficiency and better products. (Pettinger, Tejvan, 2018)

## **Evolutionary Theory at Remazing**

All the data being used in this paper are taken from the website <https://remazing.eu> of Remazing (website) and an interview with Sven Oldendorf (interview). Sven Oldendorf is one of the E-Commerce Consultants of Remazing and has been working for the agency since 2017. The Interview took place at the 28 December 2020.

E-Commerce is a result of companies' reactions to the digital revolution. It is "the business of buying and selling goods and services on the internet" (Cambridge English Dictionary, n.d.).

Due to this development in the past years amazon has evolved and became the leading online shop. Amazon grew very fast in the US and with their business strategy they expanded worldwide.

With the rise of amazon a whole "ecosystem" (interview) emerged around this platform. Many companies have used the amazon marketplace as a platform for selling their products online and

started increasing their sales with a good online marketing strategy. A number of companies outsourced this trade over this online marketing task of presenting their products on the amazon platform and, thus, need someone to support them. This is when the start-up Remazing was joining in for exactly this (interview).

Remazing was founded in 2016 and they are located in Hamburg. Their core idea was to provide content for their customer's presentation of their products on the amazon marketplace. Until today this is a milestone of their business (interview).

The idea already existed in the US, in Seattle and the model worked out really well there. After a market analysis was made for Europe and it was promising, Remazing was born.

In this step a first aspect of the Evolutionary Theory can be seen. In 2016 their work was like a niche. So they adapted to what the market required. They used knowledge which was proofed good from the business in the US and formed this to fit perfectly for them (interview).

The Evolutionary Theory explicates that companies learn and grow from experiences and failures. So did Remazing.

When they started their business there were just a small number of employees who worked on basic content demanded by their clients. Remazing focused on copywriting product descriptions on amazon. It was important to give a product a good headline and description so that it could be easily found by the consumer (interview).

They had great success with their work and in the first quarter of 2017 they published around 500 products per week even for international clients (interview).

Doing every product by hand was time-consuming. For this reason they developed a Content Management tool to work faster and more efficiently. Working with patterns for the content for amazon in the tool made the work a lot easier. Efficiency is always a sign for fitness when it comes to competition. The tool was a large step to consolidate their position on the market (interview).

In the third quarter of 2017 for many of their customers' products the basics had been done but still they needed support. Remazing realized that they had to provide more tailor-made services. As a result they started offering support for advertising campaigns and consultancy. Whenever the market situation changed Remazing was able to react immediately. Remazing understood very

early that anticipating their customers' needs was vital to survive on the market and to expand (interview).

In so far it matches with Sidney G. Winters' and Richard R. Nelsons' description of the Evolutionary Theory as a response to the current situation on the market and dealing with it with innovative behavior (Nelson and Winter, 1982, p.3).

In the last quarter of 2018 other mail order companies like Otto and Zalando took the amazon marketplace as a model and to expand in Europe. The companies which wanted to offer their products there now needed assistance to master all the challenges of the different marketplaces. Hence, Remazing took their chance to offer their expertise for customers of other marketplaces and were able to extend their business to new fields (interview).

Remazing, however, was not the only agency with this business strategy and many others have evolved during the past years. The competition is high and a business must not lose track of the current situation on the online market. They have to adapt to the demands of their customers. Thus, the dynamics of the team is considered very important. Therefore, "Remazing had always had the biggest focus on finding the right employees with the right mindset" (Sven Oldendorf). They attach great importance to the attitude of their employees because they have to react fast and creatively and be open for new developments in the agency and for market changes and their customers' requirements (interview).

Like it is described in the Evolutionary Theory a company survives on the market by using their resources and when adapting to the outer circumstances. External circumstances may change but the challenge is to react and be flexible. This approach is reflected by the agencies website: "Here at Remazing we are guided by your requirements. We offer you full support in anything that is important for your company on Amazon." (website).

Due to Remazing's close attention to human resource management they are able to go with new movements and challenges. "In doing so, we employ entrepreneurial strategies and are always breaking new ground." (website).

All these steps helped Remazing to grow. Today big companies like UnderAmour and Beiersdorf are among their customers. Their strategy of going with the market and its requirements succeeded.

They stucked to those inventions which turned out to work well and developed with them so that they could expand. In 2020, Remazing hired 25 new employees and was able to double their workforce (interview).

*“The core concern of evolutionary theory is with the dynamic process by which firm behavior patterns and market outcomes are jointly determined over time.” (Nelson and Winter, 1982, p.18)*

This can be found in the development of Remazing.

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# Evolutionary Economics Displayed

*Julius Bahr*

## Introduction

This chapter looks at the so called “Evolutionary Economics”. A research area, that deals with evolutionary aspects transforming an economy.

The aim of this chapter is to display the principles of Evolutionary Economics through the case of “Sanitätshaus Appelrath Kemper GmbH”, a medium-sized company in Cologne.

To fulfill that aim, relevant parts of the research area of Evolutionary Economics are explained based on various selected sources. For insights and information on the case, a personal interview with the two managing directors of the company Martin and Lukas Kemper has been conducted on December 28, 2020.

## Evolutionary Economics

The research area of evolutionary economics originates in older economic theories, whereas the modern approach is mainly based on the work of Richard Nelson and Sidney Winter: “An Evolutionary Theory of Economic Change” (1982). Therein they suggest that an evolutionary theory is useful to analyze a wide range of economic phenomena associated with economic change (Winter & Nelson, 1982). This suggestion can be taken as the guiding idea for research in Evolutionary Economics. Evolutionary theory after Charles Darwin suggests a process of natural selection, which consists of three steps. Firstly, Variation conveys that the characteristics of various populations differ from each other. Secondly, Selection describes a selective process carried out by the evolutionary system on whether some members, based on their characteristics, will be subject to retention or non-retention. Thirdly, Retention symbolizes the process of the evolutionary system retaining the members with the selected characteristics and ejecting the others. (Darwin & Peckham, 2010) The result of this process is commonly known as “Survival of the Fittest”, meaning that the most fitting species tend to survive due to selected superior genes.

Nelson and Winter relate these three steps to an economic context. The population or species is thereby a set of companies. What each company sells, for example goods or services, is what the selective process is based on. The offers of the companies vary, as they are result of different

routines. Thereby “routines” refers to “[...] all regular and predictable behavioral patterns of firms [...]”. (Nelson & Winter, 1982, p.14)

Therefore, in contrast to evolutionary theory, where Variation is simply considered random, it is not random in economic context. This aspect was a result of many debates emerging as modern Evolutionary Economics became a popular research area in the 1990’s, also bringing critics into play that claimed biological analogies as not appropriate for the description of the principles of Evolutionary Economics. (Foster & Metcalfe, 2001)

The selection is effectively carried out by the buyer, who selects products with superior characteristics over inferior ones. A firm’s management of market departments and their products, as well as the decision-making in favor of superior products due their characteristics and thereby improving or maintaining sales, represents the process of retention (or non-retention). (Nelson & Winter, 1982)

To conclude, in the research area of evolutionary economics, all actors and developments in an economy are considered and examined through the lens of evolutionary theory (after Darwin). From this, conclusions are drawn about the behavior of companies and its consequences. A recurring motif is adaptation. It is important to mention at this point, that the field of evolutionary economics obviously goes beyond the content described so far. However, since this chapter is limited to the format of six pages, only those aspects are mentioned which serve to understand the relevant explanations.

## **Sanitätshaus Appelrath Kemper GmbH**

The concepts and theories described above are now to be demonstrated in the case of “Sanitätshaus Appelrath Kemper GmbH”. For simplicity, the company is referred to as “Appelrath Kemper” in the following. A brief overview of the company, which is based on data obtained through the personal interview with the management, is provided below.

Appelrath Kemper was founded in 1899. It is a family-owned business and has the German legal form of a GmbH. Which is the equivalent to the English “Limited” (Ltd.). Meaning, “A company [...], whose owners only have to pay part of the money they owe if the company fails financially” Cambridge Dictionary (n.d.). Currently, the fourth generation is managing the company. Appelrath Kemper has three pillars. The first one is their orthopedic technology, where corsets and orthotics

are made, as well as their orthopedic shoe technology. Secondly, the medical supply store, where prefabricated aids, such as compression stockings, bandages, or breast prostheses, are being sold. The third major pillar: The care area, is where Appelrath Kemper sells ostomy products for artificial intestinal exits, for incontinence and for wound care. The company has 35 employees and is based in one location in the heart of Cologne. Appelrath Kemper is part of the “Sani Aktuell”-Group, a service community that looks after around 450 companies throughout Germany. The company uses this group to do its purchasing, legal advice and has a common trademark – the blue smiley face. (M. Kemper & L. Kemper, personal communication, December 28, 2020)

## **Evolutionary Economics and Sanitätshaus Appelrath Kemper GmbH**

### *The case in the Context of the Principle*

Appelrath Kemper operates in the health industry of Cologne. An economy that is also subject to economic change, whether through digitalization or other development, such as the rise of a market challenger. In this case, the company “Rahm – Zentrum für Gesundheit GmbH“, which tries to push its competitors out of the market with its size, number of employees and an aggressive price policy. (M. Kemper & L. Kemper, personal communication, December 28, 2020)

The situation in which Appelrath Kemper finds itself is the result of routines, purposefully implemented over generations. Bringing them to be a market nicher (“a company that sells a product or service that few other companies provide” Cambridge Dictionary (n.d.)) in the manufacture of corsets, but at the same time to be a medium-sized distributor of health care products. The variation in the health care market of Cologne, caused by purposeful behavior and routines instead of random factors, is visible in this case.

To attract buyers, Appelrath Kemper is in a constant process of optimization and adaption. The customer selects products and services that are superior to others due to their price-performance ratio. If specialization (corsets) and the sale of other products and services cannot keep up with an aggressive pricing policy of the competitor, which is possible through better conditions with the supplier due to volume, customers will be lost to the competition.

To prevent retention and therefore maintain sales and customers in this case, various strategies exist. The options to expand, that Appelrath Kemper’s management saw in this situation, aligned



with the proposes of E. Penrose in her main work: “The Theory of the Growth of the Firm” (1959). There are two ways in which a company can expand, either through investments within the company or through the acquisition of, or merger with another company (Penrose, 1959). To prevent retention and thus secure the sale of its products and services, Appelrath Kemper decided on the latter option. With the acquisition of “Busch Gesundheits-Zentrum Unterwagner GmbH & Co. KG”, a competitor of about the same size as Appelrath Kemper, this step was completed. The result were better conditions with the supplier, an improved organization and structure, more branches, and a stronger position in the market. Adaptation was carried out. (M. Kemper & L. Kemper, personal communication, December 28, 2020)

## Conclusion

To sum up, the parallels between change in an economy and the theory of evolution, which symbolize the main theme of Evolutionary Economics, were presented in a clear and understandable manner. Through the case of Appelrath Kemper, the main aspects of the process of natural selection have been displayed in an economic context: Non-random variation due to purposeful behavior and routines of market participants, the presence of a selective process based on the characteristics of products and services carried out by the buyer, as well as the process of retention of companies who were not able to maintain the sales of those. However, it should be mentioned again, that this chapter followed a simple approach and does not capture the diversity and complexity of the field of Evolutionary Economics. Nevertheless, it can be stated that the research area of Evolutionary Economics is relevant to comprehend current economic phenomena.

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# Applied Evolutionary Economic Theory: The Case of Rügenwalder Mühle

*Mathis Bahr*

## Introduction

Climate change is one of the most present challenges in industrial countries, because it effects every stakeholder and innovation is necessary to solve the problems that emerge with climate change. One example for this is the German meat processing company Rügenwalder Mühle, which started to rearrange its assortment of goods and introduced vegetarian and vegan meat analogue products in December 2014. In the following chapter, I will guide through some aspects of evolutionary economic theory and apply it to the company Rügenwalder Mühle.

## The Company Rügenwalder Mühle

The information that was used to describe the history and marked economic numbers of Rügenwalder Mühle was taken from the company's website [www.ruegenwalder.de](http://www.ruegenwalder.de). The sources of data that refer to the revenues and number of employees, are the annual financial statements of Rügenwalder Mühle, which can be consulted on the website [www.bundesanzeiger.de](http://www.bundesanzeiger.de).

## *History*

The company was founded in 1834 in the town Rügenwalde in Pomerania by Carl Müller. After the Second World War the firm had to leave Rügenwalde and settled down again in the town Bad Zwischenahn in the north west of Germany. Over the next four decades the firm developed into a medium-size company, until Christian Rauffus took over the company in the 1990s. The company became a well-known grocery brand in Germany and in 2014 he introduced a new assortment of goods to the company that included vegetarian and vegan meat analogue products. Michael Hähnel became CEO in 2020, but the company still is family-owned in the seventh generation.

## *General Facts and Economic Situation of Rügenwalder Mühle*

The revenues from 2010 to 2019 are particularly interesting, because it is possible to draw conclusions from the comparison of the 5-year-periods before and after 2014. From 2010 to the

end of 2014 the revenue of the company grew from €141.9 million euros to €175.1 million euros (+23.4%). From 2015 to 2019 the revenue developed to €242.4 million euros (+38.4%), so the percentual revenue growth of the second 5-year-period is 15% higher. Furthermore, the revenue grew from 2018 to 2019 14.4%, so 2019 was the most successful business year in the company's history (ruegenwalder.de, 2020). In the same period the revenue of meat products grew 3.2%, while the revenue of meat analogue products grew 43.8%. In 2019, the share of meat analogue products of the total turnover was 34%. The number of employees grew around 20% to 683 employees. In addition to that, the company invested €15 million euros to build a new factory in Bad Zwischenahn in 2019. It increases the production capacity to be able to introduce new products and produce more of the already existing ones. For 2020 the company plans to invest €20 million euros (Bach, 2020). In total, the assortment of goods includes 29 products. Seven products contain meat, eight of the 29 products are vegetarian and 14 of 29 products are vegan (ruegenwalder.de).

### **Evolutionary Theory of Economic Change Applied at Rügenwalder Mühle**

The presented data show, how an approach of evolutionary economics can lead to economic growth. To explain this in more detail, I will give a basic overview of the theory, to simplify the understanding, on how different aspects of it can be applied in the case of Rügenwalder Mühle.

Nelson (2008) explained that the main driving force of economic growth is assimilation and innovation. The need to innovate can come from two different situations. First, the management of the company detects a potentially new innovation or alternatively the business model of the company becomes inadequate if the environment of the company changes. Moreover, economic growth was explained as a result of the evolution of a technology, changing company and industry structures and supporting and governing institutions. The innovation process of a new technology can be characterized by different aspects like mistake-ridden learning and discoveries and that every company is subject to selection mechanisms (Dosi & Nelson 1994). Further, Nelson (2008) addressed that actors will never understand the process of change completely, because variables always change. This assumption then leads to the theory that there is no theoretical optimum in evolutionary theory of economic. Nelson and Winter (as cited in Dosi & Nelson, 1994) introduced the concept of R&D. It means that it is necessary to constantly improve the existing production methods and search for new methods, so that the production can be improved, the economic growth increases and the company stays ahead of the competition.

### *Reasons for Innovation*

The sources of the data on flexitarians in this paragraph are the journal *DGEinfo* and *wdr.de*.

In the case of Rügenwalder Mühle, both reasons for innovation led to the decision to produce meat analogue products. On the one side, the company detected the trend of a growing number of Germans that eat vegetarian, vegan or flexitarian. Flexitarian means that a person eats very few meat of good quality. For example, the share of Germans, who consider themselves flexitarian grew from 11.6% (2013) to 55% (2020). On the other hand, CEO Godo Röben explained that the meat processing industry exaggerated, because animal welfare and climate protection have gone short. Now is the time to eat 50% less animals (Rügenwalder Mühle schmeißt Currywurst für Veggie-Produkte aus den Regalen, 2019).

### *Evolution of the New Technology*

This position was ideal for Rügenwalder Mühle. Their business model had a long-term ethical problem and the solution to the problem could be found in a cultural trend, which is increasingly relevant in the German society. In addition, the company already had the knowledge to produce products for the new market, as the former CEO Lothar Bentlage explained in an interview with Jens Hertling (2019).

### **Investing into the New Technology**

The key driving forces of innovation are physical investments and investments into labor (Nelson, 2008). The particular innovation process of Rügenwalder Mühle can be explained by the theory of Silverberg et al. (as cited in Dosi & Nelson, 1994). The theory considers two technologies, with one technology being potentially better if a company would invest in the technology. The second applied technology generates the capital to fund the potentially better technology. Rügenwalder Mühle applies this theory and builds a new factory, that enables to produce and create more meat analogue products. Furthermore, it increases the labor capacity to produce and manage the increasing amount of goods in terms of new lawyers and office workers, for example.

### **Selection Mechanisms and R&D**

Dosi and Nelson (1994) explained that a company underlies selection mechanisms of the market, which affect the probability of growth. One is that markets choose relatively complex products,

technological systems or whole companies instead of single parts of technological innovation or special behaviors. Rügenwalder Mühle tries to apply to this mechanism by selling a diversified assortment of 22 different vegetarian and vegan products, that is subdivided into different product categories from burger patties to lunchmeat. The diversification offers the possibility that a customer will buy more products of Rügenwalder Mühle, because he links positive experiences from one product with another one.

There are more selection criteria like the price or the quality of a product (market based) and accounting profits or cash-flow on the financial market (Dosi & Nelson, 1994). R&D gives the possibility to increase these variables (Dosi & Nelson, 1994). The approach of Rügenwalder Mühle is a contract with a German company, which tries to grow plant based raw materials for their products (Bach, 2020). With this innovation they can improve the quality through regionality and might convince more consumers to buy their products. If the production of regional soya might turn out to be more efficient and cheaper in the long term, the company's profit could increase further. Another mistake-ridden learning process and example of R&D would be that the company did not produce only vegan products from the beginning, so they did not reach all customers.

R&D processes do also tend to imitate profitable innovation with a time difference (as cited in Dosi & Nelson, 1994). In the future, it will be interesting to see if competitors imitate processes and products of Rügenwalder Mühle. Independent from market share variables, it would be then possible to draw a conclusion with the model of R&D if Rügenwalder Mühle is a market leading company.

## **Conclusion**

This chapter cannot discuss all aspects of evolutionary economic theory, like structural change. But some aspects can be well applied to the case of Rügenwalder Mühle. The company implements models of mistake-ridden learning processes and investment-driven growth through R&D that consists of research on selection mechanisms, production technologies and the product itself.

In conclusion, it will be interesting to follow the innovation process of Rügenwalder Mühle, and if the company can develop the new technology to its main business, so that the meat production business can be ceased in the future. Then, the company would meet its ethical reasons of animal

welfare and climate protection and its innovation process could be called a success besides economical growth.

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# How Apple Inc. Uses the Evolutionary Theory of Economic Change

*Viktoria Heimberg*

## Introduction

In this globalized, fast-paced world, companies constantly need to adapt to their market and environment to maintain successful and competitive. Organizations are forced to develop a new business concept, enabling creativity to create innovations that will generate opportunities for new markets. Companies in the same field might influence each other and consequently create a selective environment. In order to unfold the firm's capabilities and generate economic growth, it is relevant to understand the economic change over time (Nelson & Winter, 1982). It is important to keep the company's achievements to date as well as continue to adjust the management concepts regarding arising needs and demands.

In the following chapter, I elaborate on the evolutionary theory of economic change and how this concept is reflected in the case of Apple Inc. For that, I will first describe the concept briefly, before analyzing how it is implemented in the company.

## Evolutionary Theory of Economic Change

First of all, Richard Nelson and Sidney Winter invented the evolutionary theory of economic change in 1982. This entrepreneurial concept has similar aspects to those in biological evolution but cannot be transferred completely. Many economists before Nelson and Winter, like Veblen, Marshall, and Schumpeter, believed in the idea that economic analysis can be represented by biological evolution. In the center of the evolutionary theory of economic change is the economy as a dynamic system, always changing, due to innovation variety. Nelson (2018) describes innovation as "an activity involving a vision of something that has not existed before and beliefs about its potential." Therefore, new companies or products are established, while old ones disappear (Nelson, 2018). Nelson and Winter (1982) have created three basic concepts for an evolutionary theory.

First, there are organizational routines that describe the way how firms are doing things and how they are managing ventures. Usually, firms are rather comfortable maintaining in their known environment than adjusting to changes. Even if they understand that it is important to renew their

routines, it is more likely that they will change in the same direction as before, instead of performing an innovative change. A major focus has to be on the fact that these routines lack flexibility but in a changing environment new variety is needed (Nelson, 2018). Firms have to adapt quickly to changes in the market system and also need to be ready for possible innovations (Cusumano, 2010). Companies have to be innovative to some extent and at the same time be careful not to risk too much in attempting to improve their routines. It is a process in which trial and error practice is needed to define what actually works for the company, in terms of coping with variations (Nelson, 2018).

Second, companies need to evaluate their routines to modify them or create new ones. In evolutionary economics, routines represent genes wherefore innovations in economics are like mutations that create variety. Moreover, features of organizations are transferred over time in economics, just like genes are passed on to new generations in biology. Nevertheless, it is to say that companies are not compelled to do things in a certain way by these routines. Economic operators can decide consciously what they are doing, in contrast to biological evolution where living organisms cannot actively change (Nelson & Winter, 1982 and Nelson, 2018).

Third, the market environment of an organization is selective. It affects the success of a company and whether this firm can be considered profitable or not. Conditions outside the company, like product demand and factor supply conditions, as well as the actions of other firms in the same sector, may create this selective environment (Nelson & Winter, 1982). In evolutionary economics, selection pressure is defined through a company's achievement in a competitive market with concerning survival and expansion. Consequently, firms that demonstrate a less successful behavior in the economy will be displaced by firms that use innovations to expand (Witt, 1992). However, it is an ongoing competition that is not finished as soon as the economic activity is close to an equilibrium. That is because economic change, which plays an important role in evolutionary economics, is not considered in this equilibrium theory (Nelson & Winter, 1982). It is rather an evolutionary process, generating a variety of management procedures that differ in efficiency (Nelson, 2018). Hence, it is up to the firms to adjust constantly to the changing economy.

## **How Apple Inc. Implements Evolutionary Economics**

I will elaborate on how the concept is applied in the company Apple Inc. Therefore, I will examine the company's history first.

Apple Inc. is one of the most innovative and successful companies today but it all started in a garage in California. In 1976, Steve Jobs, Steve Wozniak, and Ronald Wayne co-founded Apple Inc. but Wayne left shortly after. Steve Wozniak built a computer machine for himself, which later became Apple I, the essential starting point of a whole new market branch. Shortly after the Apple I, Wozniak started to improve the processor and Apple II was created. Compared to the first model, the second one was a breakthrough, eventually being referred to as the first personal computer. Apple continued to improve its products and in 1984, the first Macintosh was presented. Another revolutionary technical device was introduced with its innovative mouse and graphical user interface. Nevertheless, difficult years, without a clear direction and structure followed at Apple Inc. too, which is why Wozniak left the company and sold most of his shares. However, the invention of the iMac in the late 1990s saved Apple's place in the market. This time, the curvy, bright, and colorful design was in focus to stand out in the market of beige box computers. Even when Apple was successful again, it did not stop developing new products. A further breakthrough was the iPod in 2001. A small portable music player made it possible to save thousands of songs. The success continued with the iPhone being unveiled in 2007 and the iPad in 2010. New, innovative products are still introduced today, with the Apple Watch being the newest addition in a new product sector. To this day, Apple Inc. is one of the largest computer companies and one of the most successful in the technology field (O'Grady, 2009).

With this look at Apple Inc.'s historical background, it is clear to say that innovation is one of the most relevant aspects in terms of economic growth. That does not necessarily mean creating new product branches like the iPhone and Apple Watch but also improving existing products. A good example of that is the iPhone camera. Compared to the importance of the smartphone camera development nowadays, the camera was rather a minor feature in the annual unveiling event when it was first introduced. It was only six seconds worth to talk about. However, since then the iPhone camera developed in various ways from panorama photos over dual-lens cameras to night mode and many more (Podolny & Hansen, 2020).

The technology field, especially the smartphone sector, is evolving quickly and therefore highly competitive. In order to maintain dominant in this field, it is necessary to adapt constantly. Otherwise, the company disappears while new ones arise. For example, Nokia dominated the smartphone domain for a long time until it failed to innovate the phones, and Apple and Samsung took over the market. Even though Nokia was the first company to develop a smartphone with an

LCD, Apple was innovative enough to create the first LCD display with a multitouch function and a support system through the App Store. This drove the smartphone market forward, with Apple Inc. dominating, while Nokia was rapidly decreasing (Yun, 2016). Therefore, constant product and service introduction, as well as technological advancement is needed to maintain successful. The competition between technology companies intensifies when competitors sell their products at a lower price or copy innovative features of another company (Apple Inc., 2019). After all, Apple Inc. showed a remarkable way to maintain superior in the market through constant innovation.

## Conclusion

As explained in this chapter, the process of economic change can be described with the evolutionary theory. The focus is on three characteristics of the biological theory that are assigned to economic features. Genes are passed on to the next generation, setting the base for abilities and characteristics. In economics, routines take on this position and create a structure in the company over time. Nevertheless, it is still important to be flexible for opportunities to extend the firm. A major aspect in this regard is innovation, or what is called a variation in biology. Companies constantly have to move forward by innovating their products, which creates a dynamic economy. Another point that contributes to the dynamic system is the competition among different companies in the same field. With regards to the biological natural selection process, the most profitable company will succeed in the market and might expand, while firms that do not adapt to the current conditions will disappear. To clear up how the evolutionary theory of economic change is implemented in a business concept, I looked at the company Apple Inc. The most striking point was the constant innovation and adaptation. Steve Jobs was always advanced and kept creating new products that were revolutionizing. Still, the technology sector is one of the most competitive and fast-paced ones wherefore it is necessary to recognize where innovation is needed the most. Apple Inc. was able to become one of the most successful technology companies and remains in the lead of the field. In contrast to Nokia, Apple does not stop adjusting even though it is in a supreme position. The evolutionary theory is therefore very useful to generate economic growth.

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# **The Start-Up NetVantage within the Evolution of Economic Change**

*Luis Kade*

## **An Introduction to NetVantage**

*All data is retrieved either from the company's website ([www.netvantage.agency](http://www.netvantage.agency)) or an oral interview with Finn Peiter, CEO and founder of NetVantage in 2021.*

NetVantage, founded by Peiter in 2018, is a German start-up located in Cologne. The agency's focus is on digital brand-performance marketing, while its aim is to support e-commerce businesses to maximize their profits in the short and long term. At NetVantage, so called brand-performance marketing is used to support online shops in creating a healthy balance between branding and performance.

By using Facebook and Instagram advertisement, companies can address additional parts of target groups which supports developing stable and consistent economic growth (Peiter, Interview, 2021). In this regard, NetVantage designs advertisement campaigns to direct as many potential customers as possible to the online shop, seeking to maximize the conversion rate and to increase the sales revenue.

Simultaneously, the company's branding is strengthened, helping to create a close relationship with the customer. As a result, the latter return as often as possible which maximizes the customer lifetime value, so called CLV, enabling expansion in the future (Peiter, Interview, 2021).

Today, NetVantage advises expanding companies such as DeliFair, Fair2Me, Voltgear, or Jeansskills and aims at becoming one of the biggest social media advertisement agencies in Germany. How is it possible to keep up with and outperform competitors?

## **About the Evolutionary Theory of Economic Change**

The evolutionary theory of economic change originated in 1982 when Richard R. Nelson and Sidney G. Winter published their book *An Evolutionary Theory of Economic Change*.

Evolutionary economics is both part of mainstream economics and component of the heterodox school of economic thought that is inspired by evolutionary biology (Frederic Lee, 2011; Darwin,



1859). In this regard, using evolutionary methodology, the theory deals with transforming economic industries, firms, employment, trade, and growth (Nelson & Winter, 1982).

Furthermore, the theory discusses complex interdependencies, competition, growth, and resource constraints but differs in the approaches that are used to analyze this variety of phenomena.

The term "evolutionary theory" describes the alternative to "orthodoxy" (Nelson & Winter, 1982, p.15) by referring to basic ideas of Darwin's evolutionary biology. Orthodoxy can be linked to the neoclassical theory and describes markets as moved by an invisible hand and all actors as rational (Smith, 1776). There has been renewed interest in treating economic systems as evolutionary systems in the developing field of complexity economics (Nelson & Winter, 1982; Martin & Sunley, 2007).

Evolutionary economics analyses the process of technological and institutional innovation by generating and testing a diversity of ideas which discover and accumulate higher survival value for the costs incurred than competing alternatives (Nelson & Winter 1982). This scheme can be regarded as economical "natural selection" (Darwin 1869). Subsequently, the evidence suggests that it could primarily be adaptive efficiency that defines economic efficiency (Nelson & Winter 1982). Innovation may result in active research. Another important aspect is how innovation through the combination of new routines, reactions to changing or changed environments or to failure can result in an active search for new strategies as routines that is part of the natural evolution (Nelson & Winter, 1982).

Evolutionary economics does not set the characteristics of either the objects of choice or of the decision-maker. Rather, it is focused on "non-equilibrium" processes that transform the economy from and within their implications (Nelson & Winter, 1982, Chapter 6). The processes, in turn, emerge from actions of diverse agents with bounded rationality who may learn from experience and interactions and whose differences contribute to the change (Nelson & Winter, 1982, Chapter 4 & 5).

This theory, called "organizational memory", is built on routines as part of organizational control and basis of competition (Nelson & Winter, 1982; Schumpeter, 1934). It ultimately resides in the knowledge of individuals within firms. Translated Darwin's evolutionary theory, the firm's routines around optimization can be interpreted as its "genes". Additionally, the imitation of other

firms' routines can be a form of organizational learning and adapting in order to survive in a competing environment (Levitt & March 1988).

In general, the theory contrasts an orthodox view, assuming that firms will adopt optimally to the new market conditions. Further, they are optimizing their business by emphasizing the importance of routine-based actions to generate economic innovation (behaviorism).

## **NetVantage and The Evolutionary Theory of Economic Change**

In the following, this chapter will elaborate on several concepts of NetVantage, whilst linking these to the theory of economic change.

### *Foundation*

In 2018, NetVantage was founded as a response to current market changes, i.e., the shift in buying behavior from offline to online. This trend can be explained by a high level of comfort for the customer and recently, it has been further accelerated by the SARS-CoV-2 pandemic. This resulted in 2020 being another record year for the e-commerce business, proving that online business will remain highly important in the future. Accordingly, NetVantage adapted to the trend and could optimize its economic efficiency (Nelson & Winter, 1982).

### *Competitiveness*

The evolutionary theory stresses that a company needs reasoned routines to continue being competitive and to survive in an environment that is based on innovation and destruction (Schumpeter, 1934).

### **Specialization**

NetVantage is highly specialized on social media marketing and can consequently offer the best possible management which sets the start-up apart from other competitors.

### **External influences**

Since 2018, the General Data Protection Regulation (GDPR) restricts data-tracking by cookies that convey important information to the algorithm. Without cookies, the machine is provided less data to learn from and hence, to match target groups with advertising partners. Many browsers have

already blocked this possibility, and with the upcoming update of IOS14 every single user will be asked if they want to allow that they can be tracked. Peiter states that one must know and inform oneself about such upcoming changes to enable quick adaption (Interview, 2021).

In addition, the economic-evolutionary process is drastically accelerated by the SARS-CoV-2 situation because much more money is invested into the online world which leads to a necessity of assimilating routines quickly to the new market conditions to stay competitive (Nelson & Winter, 1982). At NetVantage, this includes rearranging cookies and therefore, imitating other companies' routines. Otherwise, the company may be forced to leave the market, as many online businesses did after the GDPR became effective.

### **Pressure**

Pressure can be both a constructive or a destructive factor. Regarding the increasing number of competitors, Peiter states that “most of your potential customers have already been contacted by social media marketing agencies and hence, are in touch with the topic. This is why we feel a constant pressure to accelerate our growth and maximize our market share” (Interview, 2021). On the networking platform LinkedIn, rising concurrence become apparent, as it is a place where e-commerce businesses are being contacted by firms with similar approaches like NetVantage.

### *Analysis*

It is vital to keep an eye on offerings of social media platforms that are being worked with as well as on foreign markets. Especially the Chinese and American market can be significant when trying to understand and anticipate upcoming trends in social media advertisement, as they usually are a few years ahead of the German market.

Moreover, NetVantage stays in touch with other companies and (former) customers, whilst complementing this with medial research and dealing with statistics to determine meta-trends.

### **Conclusion**

All in all, the specialized NetVantage agency embodies an innovative start-up, that has the capabilities of shaping the upcoming evolutionary changes in the e-commerce sector (Nelson & Winter, 1982) by building sustainable and ingenious routines that form a stabilized fundament for the future.

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# Going with the Flow: Investigating Starbucks Economic Evolution

*Jo Linn Thureau*

## **An Introduction: The Company and the Theory**

This book chapter will explore the economic development of the Starbucks company under application of the Evolutionary Theory of Economic Change by the means of the three exemplary aspects: product palette, digitalization and sustainable image.

### *Starbucks*

A quick check of Starbucks' website gives a first impression of the scale the company operates on. Starbucks is an internationally acting coffee roasting and supplying company. Since the founding of the first coffee shop in 1971 in Seattle, Starbucks has grown to 31.256 stores in 80 countries across the globe as of 2019. Around 346.000 workers are employed and the company is registered at the stock market.

### *Evolutionary Theory of Economic Change*

Starbucks has worked up to its current stance and range through a mixture of constantly adapting to the consumers demand, as well as deploying a smart business concept (Haskova, 2015). In this fashion, Starbucks has succeeded over competitors and withstood the "natural selection" of the coffee market, as suggested in Nelson and Winter's work "An Evolutionary Theory of Economic Change" (1982). This theory is derived from the ecological evolutionary theory of Charles Darwin, generally popular as "Survival of the Fittest". Nelson and Winter's theory of how companies persist in constant economic change will provide the concept to comprehending the global emergence of the Starbucks company.

## **Product Palette**

Starbucks has come a long way since its first opening; the current product pallet being one of the most obvious evidence. The initial offerings coffee, tea and spices were increased in variety and expanded by drinks such as hot chocolate, smoothies and juices, by food such as sandwiches, cakes and cookies and by merchandise such as reusable cups, coffee equipment or bags. Fulfilling an

increased number of consumer desires, this paved the way for a broader target group and increased Starbucks' profitability in comparison to specialized competitors. Starbucks was thus more likely to win over customers, for example in a local interest conflict with another company.

### *Exotic Naming*

To stand out from other coffee retailers, Starbucks decided on Italian designations, such as “Latte” or “Mocha” for specific coffee types, “venti” or “grande” for the size of the drink and “barista” referring to their employees. This strategy conveyed an intriguing sense of the products being exotic and originating from abroad, and made them more memorable than the usual small, medium or large (Simon, 2012).

### **Digitalization**

To be known and continue an international business in times of globalization and digitalization, Starbucks acquired a wide online presence. The website, the Facebook page, the Twitter account, the Instagram profile- a quick search allows an extensive impression of the company and its products, as well as the online involvement of customers. Exemplary is the posting of the famous Starbucks cup on Instagram with the majority of the almost 37 million (January 2021) posts with the #starbucks tag presenting every possible version of the cup. With the user openly associating themselves with the Starbucks company, this doubles as free advertisement for Starbucks, granting them an automatically increasing range (Haskova, 2015).

### *The Third Place*

For the establishment of their stores, Starbucks utilized the concept of the third place as introduced by sociologist Ray Oldenburg, which is illustrated in detail in the ARTE documentary “Starbucks unfiltered” (2017). With the modern worker on the transit between work and home, Starbucks' intent for their shops was to create an additional space for a short moment of relaxation or an inspiring work atmosphere. Contrary to other restaurant establishments, Starbucks profits from people spending an undefined amount of time visible in their shop working on their laptops, since this clientele further enhances the impression of modernity and exclusivity. To support this strategy, Starbucks has designed their stores to be comfortable and equipped with electricity and free wifi. This again poses as an advantage over non equipped competitors.

### *The Personal Experience*

By writing the customer's name on their order, Starbucks invented a smart, unique trademark that gives the impression of a short moment of individual appreciation in times of anonymity and fast encounters. By implementing the customer's name, Starbucks has managed to create a bridge between keeping up with modern trends of digitalization and preserving the face-to-face customer interaction.

### **Sustainable Image**

The more the consequences of global problems, such as social injustice, worker exploitation or climate change, are known and experienced, and the more information about downsides in business and trade practices is being published, the greater companies are watched and judged by the public (Argenti, 2004). In order to not get bad press or boycotted, Starbucks is under pressure to constantly improve to more sustainable practices (Simon, 2012).

### *Working with NGOs*

As Argenti proposes, NGOs have evolved towards a powerful position: their assumed moral-oriented (instead of companies assumed profit-oriented) actions are easier trusted by the public, enabling them to influence governmental and economic decisions by providing certain pictures for the public opinion, for example through social media channels. Starbucks picked up on this trend and started working with NGOs in 1996. Exemplary, Starbucks and the NGO "Send a Cow" joined in a partnership in 2017 called "Coffee & Cows", which supports production and living circumstances of smallholder coffee farmers and their communities in Rwanda. Tackling issues on a different front, Starbucks has partnered with Hope in a Bottle since 2012 to build public school classrooms in the Philippines. Both parties advertise these partnerships on their websites.

### *Social Responsibility*

In its mission statement, Starbucks declares its values of diversity, respect and courage regarding their employees as well as their customers. To support this statement, Starbucks has shown clear positions in favor of major topics of social diversity. With their #whatsyourname campaign in cooperation with the Mermaid Charity, Starbucks seeks to support transgender and gender diverse people. On its website, Starbucks openly displays appreciation of the Black History Month, the



International Women's Day, the LGBTQ+ Community, as well as their hearing-impaired employees. Taking these social and political stances is of high significance for modern companies like Starbucks (Kang & Namkung, 2017). With increasing representation and legitimization of diverse ethnicities, sexualities and disabilities, companies can no longer be neutral, or continue a status quo of mainly western white display without receiving social backlash and hence experiencing a decrease in revenue.

## **Conclusion and Critique**

Winter and Nelson (1982) narrow their theory on evolutionary market development to the following: "Thus, profitable firms will grow and unprofitable ones will contract, and the operating characteristics of the more profitable firms therefore will account for a growing share of the industry's activity". In this fashion, it can be observed that many companies of great market value, just like Starbucks, pursue a positive social and environmental image and enhance corresponding practices. To reach its current state, Starbucks has outcompeted others in the industry and survived through constant adaption to the market and demand, and thus poses as a generally successful case for the theory.

Nevertheless, it should be added that on the capitalistic free market companies with great financial and political resources possess the ability to influence their economic environment beyond what the analogy with the biological evolutionary theory would suggest. A comparison to nature's balance would hence be inadequate. Further, practices to gain advantages over competitors often involve harmful practices behind the façade. In the case of Starbucks, reports of genetically modified milk, slave labor practices, broiler chicken and grievances in their self-established fair trade standard program "C.A.F.E.", to only name a few, have initiated great critique and concerns.

To be concluded, a successful company does not always equal admirable inspiration for future business, and Starbucks has to continue strongly towards a more sustainable future.

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



# NAVER Co., Ltd. and Corporate Entrepreneurship

*Lea Denecke*

## Introduction

This chapter will introduce the company NAVER Co., Ltd. and show, based on a few examples, how the concept Corporate Entrepreneurship is implemented in their business. To write it, I used data from the company's website ([www.navercorp.com](http://www.navercorp.com)) and will refer to it as (website) in the following.

## About the Company

The South Korean company NAVER Co., Ltd. was founded in June 1999 and operates the country's largest web search engine and global ICT (information and communications technology) brand (website). It is referred to as “the Google of South Korea”, because it is handling almost 75% of all web searches and has 42 million enrolled users (PRNewswire, 2020). The company's other key product is the mobile messaging platform LINE that was established in 2011 and has over 200 million users worldwide. It is a diverse platform that offers products in AI, fintech, payments, delivery and more and is, according to the company's website, “dedicated to make everyday life more productive and enjoyable”.

Like Google the company provides services such as news, maps, books, e-mail, shopping, image search, language translation, etc. It also provides community services including blogs, the platforms NAVER webtoon, the photo and video messenger app called SNOW, and the group communication app BAND. NAVER Café is a service that allows users to create their own online communities, in NAVER smart store you can open your own online store. On the platform V LIVE celebrities can broadcast themselves live and engage with their fans. NAVER also created their own web browser called Whale and a business platform called SERIES. Early on the company launched services, like the platform Jr. NAVER, that offers content for children, like the homework helper, the children's song world, nursery rhymes, games and movies for children. The question-answering portal Knowledge in (KiN) was established in 2002. Users can ask and answer questions and rank them according to how helpful they are. There is also the online donation portal

called Happybean that enables internet users to participate in donation activities and to support organizations easily. (website)

NAVER LABS was founded in 2013 and is a research center that focusses on ambient intelligence in different areas, like autonomous driving, robotics, artificial intelligence and geospatial data. The AI platform CLOVA incorporates speech and image recognition as well as artificial neural network translation into one interactive engine and will be built into various products. NAVER also runs the startup accelerator D2 Startup Factory that coaches and invests in technology startups. (website)

## **The Concept Corporate Entrepreneurship**

Established companies are often challenged by strong market dynamics, shorter lasting life-cycles of technology and products and competitive intensity. Through years of experience in a specific field, they can become less flexible and less open to new ideas and innovations, which makes it hard to survive in this rapidly changing environment. (Engelen et al., 2015)

Therefore, many organizations try to build a framework to support innovation and new business growth. Companies have to continue to invent new businesses, new products, services or develop internal processes in order to survive on the market. This concept of constant renewal and innovation is called Corporate Entrepreneurship or Intrapreneurship. (Grichnik et al., 2017)

The three main dimensions to measure Corporate Entrepreneurship in an organization are innovation, proactivity and the readiness to assume a risk. There are two forms of Corporate Entrepreneurship that can be distinguished. The first form, Corporate Venturing, deals with the development of an innovative organization with a dynamic corporate culture, making new business areas accessible and making financial profit. Whereas the second form, namely Strategic Entrepreneurship, focusses on changes within the organization that lead to a strategic advantage compared to other companies. (Grichnik et al., 2017)

Corporate Entrepreneurship is a concept that can be influenced by the company's management. It is important to hire creative and flexible staff and support their creativity through respective structures and assistance measures. The business strategy should imply continuous regeneration and growth. Furthermore, the company should have flat hierarchies to make it easier for employees to be creative and take initiatives. (Grichnik et al., 2017)

Another very important point that has to be considered is the corporate culture. It is defined as a pattern of shared assumptions or values that have proven to be helpful to the company in the past and are therefore passed on to new members as the right method for success. That's why it can only be influenced over a longer period of time. (Grichnik et al., 2017)

## **How NAVER Implements Corporate Entrepreneurship**

In 2018 NAVER was ranked as the 9<sup>th</sup> most innovative company in the world by the American business magazine Forbes and as the 6<sup>th</sup> Fortune 50 company by Fortune magazine (website). But how did this happen and how does NAVER implement Corporate Entrepreneurship in their business? One of several reasons could be NAVER's organizational process innovation. In 2011 none of the company's products were ranked among the top ten mobile apps.

This was seen as a crisis, even though the company's size was still growing. To overcome this crisis NAVER started to introduce several system changes. In 2012 the division system was established. It allowed NAVER to introduce new services more quickly and to respond to market changes better, because planning and development now took place within a single division. The teams didn't have to cooperate with other teams with different functions (like design, development, advertising) anymore and could make decisions more autonomously than before. The cell organization followed in April 2014, which also helped to increase the autonomy of each cell concerning decision making and the development and execution of services. The Company in Company (CIC) system was introduced in 2015, which made each CIC relatively independent in recruitment and placement of workers and operational budgets, the first one being the webtoon and web novel cell. The performance accountability system and the budget accountability system were established to leave work attitudes to the individual. Organization and support organizations were now supposed to set priorities by themselves and distribute the given resources individually. (Kim & Ryu, 2017) All of these changes lead to flatten hierarchies and therefore a work environment that makes it easier for employees to be creative and unfold their potential.

Even before NAVER abolished the position classification system in almost all departments, the salaries of the highest-earning employees were higher than the ones of the lowest-earning managers (Kim & Ryu, 2017), because NAVER provides "reasonable compensation based on the executive's abilities and outcomes" (website). That means, the contribution to the organization is



more important to the increase of salary than promotion. This makes employees feel acknowledged, gives meaning to their work and thus increases their motivation.

In general, NAVER focusses mainly on the users of their products (Kim & Ryu, 2017). On their website it says: “The values of our customers and users provide the ultimate criteria by which we evaluate our business practices, and we persistently strive to create value for our users. We strive to remain honest and trustworthy in all of our interactions with our users, and are committed to remaining attuned to the feedback of our users.” This indicates the company’s flexibility in interacting with their customers and their willingness to adapt to changes.

Lee Hae-jin, a former chairman of NAVER, stated in an interview that if an organization’s vision is strong, it will become rigid and that NAVER therefore does not present its vision clearly to remain flexible (Kim & Ryu, 2017). The fact, that NAVER strives to stay flexible even in their vision, shows that continuous development is deeply rooted in their corporate culture.

NAVER not only made strategic changes, but is also constantly working on developing new products and services. Like stated before, the company is researching and developing technologies in their subsidiary NAVER LABS. In 2019 for example, they revealed new AI-based technologies at CES, like the service robot AROUND G, the robot arm AMBIDEX, core technologies for autonomous driving and Hybrid HD Mapping (businesswire, 2019). The company also tries to defend their position on the market against competitors like Google, for example by preventing other search engines from accessing their data (Choi et al., 2014).

In conclusion, it can be said that NAVER is a very good example of how companies can use Corporate Entrepreneurship to their advantage. They not only continue to constantly expand their palette of products and services, but also facilitate flexibility and creativity through multiple systematic changes. NAVER is encouraging individuality, values the opinion of their customers and is conducting research of future technologies. All of this created a framework which has helped and is still helping the company to grow and develop resilience in a constantly changing market.

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# Corporate Digital Entrepreneurship at Cisco Systems, Inc.

*Milena Diehl*

## Cisco Systems, Inc. and Its Organizational Structure

### *Introduction of Cisco Systems, Inc.*

Cisco Systems, Inc. is one of the most innovative IT and networking corporations in the world (Ringel et al., 2016) with its headquarters situated in San Jose, California. The company calls itself the worldwide leader in technology that powers the internet and sees its purpose in powering an inclusive future for all. Since the founding of Cisco back in 1984 the company specialized on developing, manufacturing and selling high-technology products and services like networking hardware, software, telecommunication equipment. Under CEO Chuck Robbins Cisco was generating a revenue of \$49.3 Billion in 2020 (Cisco Annual Report, 2020) and is present in 165 countries. The company currently employs 77.5 thousand people working in engineering, sales, service, research and development and holds a share of 49.9% on the ethernet switch market, 44.3% on the WLAN market and 18.8% on the IT network market (Holst, 2020).

### *Organizational Structure and the Role of Employees*

The organizational structure that stands behind the success of Cisco is characterized by its informality. The employees at Cisco work in dynamic virtual teams, which are teams of individuals who carry out specific business operations for different projects (Kodama et al., 2017). These dynamic virtual teams and the spreading of leadership amongst the employees have a positive impact on the quality and speed of decision-making which leads to a high level of flexibility. Employees at Cisco often participate in more than one single project which allows the company to gain a high level of connection and communication of individuals inside the company. This collaboration and teamwork encourage the co-creation of new ideas and therefore support Cisco's innovativeness and ability to disrupt markets. This overall goal of market disruption is also aimed at with creating the so-called "conscious culture" by providing the employees with an open and supportive environment to develop skills and innovative ideas. Even though Cisco engages rather bottom up with its informal human network, entrepreneurial management and the concept of corporate entrepreneurship are important factors to create an innovative and agile business model

in the long term. This chapter will deal with the relevance of corporate digital entrepreneurship for a large technology company and its implementation into the company. It will have a closer look on Cisco's digital transformation journey and the development of an innovative and conscious culture.

## **Corporate Digital Entrepreneurship at Cisco Systems, Inc.**

### *Corporate Digital Entrepreneurship and Its Relevance*

“The process whereby an individual or group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization” (Lomberg, 2010, p.9) is referred to as corporate entrepreneurship (CE). This concept is highly relevant in dynamic environments like the high-tech industry from which Cisco is surrounded by as competitors, customers and technologies are continuously changing the market situation (Engelen et al., 2015). As an extension to CE, corporate digital entrepreneurship includes the finding that digital technologies have a profound impact on entrepreneurship (Gosh et al., 2021). As entrepreneurship and innovation are intertwined there is a strong need for innovativeness inside an existing company to maintain their competitiveness and success to not be left behind. This is especially important nowadays as digitalization is constantly creating change.

### *Corporate Digital Entrepreneurship and Cisco's Digital Transformation*

The main idea behind CE is the “transmission of entrepreneurial spirit on an established company” (Lomberg, 2010, p.9) which can be done through internal corporate venturing and corporate innovation (Burgelman et al., 1986). According to Gosh et al. (2021) there are three specific steps for an implementation of corporate digital entrepreneurship which are defined as the transformation of the business model, operating model and the company's overall culture. In the last years Cisco went on a journey which they call their digital transformation to transform their business and operating model and focused heavily on creating an open, dynamic and conscious culture inside the company that provides space for innovative ideas. Cisco is no exception when it comes to digital disruption. That is why the company needed to change their way of doing business to later apply what they have learned to their customers and how their business needs to be transformed. As Cisco is a company build around the success and improvement of their customers

through the products and services of Cisco the transformation and innovation of Cisco's *business model* mainly focusses on customer expectations. Therefore, there are three key areas of business model innovation. First there is the focus on "what customers buy" which leads Cisco to offering highly synergetic and purpose-built strategies as well as next-generation services. Another focus lies on "how customers buy it". That is why Cisco offers new consumption models providing a more digital experience and a tighter relationship with Cisco. The company also sets its focus on "how to maximize value for customers" through supporting customers through the entire consumption process. Besides this customer-focused innovation Cisco follows a multi-level approach to business model innovation which includes product, commercial and go-to-market innovation. These innovations lead to an innovation of the *operating model*. Practical experience out of the company's operations will improve the business model again which results in a cycle which Cisco calls their digital architecture to power resilience and agility. Developing outcome-centric and customer-focused business models due to technological advancement and transforming the operating model by integrating business systems and processes with internal systems are two important steps to corporate digital entrepreneurship (Gosh et al., 2021). The third step of implementing corporate digital entrepreneurship consists of a *cultural transformation*. Digital leadership which refers to the mindset of managers responsible for corporate digital entrepreneurship is a major element in transforming a company culturally. Digital transformation is forcing Cisco to overthink the composition of their boards to reflect the way how businesses in nowadays disruptive ecosystem really need to be managed. This is causing the emergence of a new role: The Chief Digital Officer (CDO). Singh and Hess (2017, in Gosh et al., 2021, p.194) pointed out that "the role of the CDO is critical for corporate digital entrepreneurship, and this person is responsible for digital initiatives in large organizations". The CDO of Cisco Kevin Bandy works very close together with Cisco's Chief Information Officer Guillermo Diaz and the executive leadership. As Bandy is fundamentally reengineering the way to do business and Guillermo Diaz decides on the best way to adapt Cisco's technology strategy none of them could drive digital transformation alone. The CDO and CIO respond their findings to CEO Chuck Robbins who brings all information together. The company is characterized by its informality and bottom-up processes which play a big role in Burgelman et al. (1986, p.137) discovery of innovations being "typically initiated at lower levels in the organization". Robbins only gives impulses for innovation and keeps an eye on the overall transformation of the company while staying closely in contact with the

employees. The leading board of Cisco knows that the employees and their mindset play a central role in this transformation process. Starting with the so-called People Deal which empowers and encourages employees to build innovation into their daily work the newly developed concept of a conscious culture (Cisco Systems, Inc. 2020) completes the company's mindset with diversity, inclusion and self-awareness. Cisco sees its employees and their innovative ideas as accelerators of Cisco's leadership in the digital age. On its journey to an innovative workforce Cisco has established the "My Innovation" program (Cisco and/or its affiliates, 2018) which includes several workshops, awards, resources and competitions like the "Innovate Everywhere Challenge" (IEC). This cultural shift was mainly driven by the establishment of the so called "My Innovation Hub", a virtual platform where employees can participate in innovation events and competitions and come into contact with peers and mentors with similar ideas. The Innovation Hub has developed towards a well-used platform characterized by spontaneous peer-to-peer interactions which enable Cisco to support the most valuable innovation projects and leverage employee's ideas and skills for an acceleration of future innovations. Samuel Liu, a Semifinalist of the first IEC has brought Cisco's transformation to the point: "I think Cisco is focused now more on innovation than ever before. It's impressive to see every employee and team is inspired to build their own idea and make it happen with the support from the corporate level." (Cisco and/or its affiliates, 2018).

## Conclusion

Cisco is surrounded by a very disruptive ecosystem due to emerging digital technologies. To remain competitive on the market the company needs to constantly innovate. Since Chuck Robbins is CEO of Cisco the company has made a crucial step towards long-term success with its digital transformation journey including business model, operating model and cultural transformation. Even though the transformation of the business and operating model is equally important, Cisco's new and innovative *conscious culture* is quite remarkable. The efforts for creating an entrepreneurial spirit throughout the whole company are an important factor for the success of Cisco and the motivation and commitment of its employees. Cisco shows that with the right mindset of the leadership, an informal organizational structure and the willingness to transform and support employees' creative ideas a large corporation can redefine itself and adapt to disruptive ecosystems.

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# Explaining the Theories of “Corporate Entrepreneurship” based on the Company ByteDance and their Platform TikTok

*Lucas Finkbeiner*

## Introduction: What is TikTok and Why is it Successful?

TikTok (Douyin in Chinese) is a social media video sharing platform, created by the company ByteDance and launched in September 2016, that has amassed a global audience of more than 800 million active users (Woodbury, 2020).

TikTok offers a richer format than its competitors with a strong focus on 15-second videos, that are synchronized to trending sounds. TikTok’s users are able to consume 50 times the amount of content before a YouTube user is able to consume one (Davis, 2019). This rapid consumption pace has led many influencers, brands and creatives to join the platform to increase their brand interaction. The content creation on TikTok is centered around trends and original content and filtered into different subcultures. The videos created are then algorithmically filtered into what TikTok believes to fit into these subcultures. The filtered videos then appear on users “For You” page, which is similar to a Facebook feed, except that you do not have to subscribe to an account to see its content. At any one time a user can have multiple different subcultures appearing in their “For You” page (Woodbury, 2020).

When watching “a TikTok” there are multiple ways to interact with a video. There are the classic options of liking, commenting and sharing the video with friends or on other Apps, viewing and following the account of the video watched, adding the video to “your favorites”, so that you can access it later on your profile through an icon, downloading the video, marking the video as uninteresting for the algorithm to learn about your preferences, reporting the video and the option to live-stream to your followers directly on the App. However, there are also the methods that TikTok as a platform has brought to the market: “Duets”, which allow users to post custom videos that play on the side of the screen next to another video simultaneously, “Stiches”, which allow users to post custom videos after an introduction of maximum five seconds from another video posted, saving the sound from a video for it to be used for the own production and saving effects used for the same reason. Comments, Duets, Stiches and Downloads can be turned off optionally by the creator (tiktok.com).

The goal of the platform is to actively encourage consumers to also produce content, leading to a higher emotional investment, which results in an increased consumption. This snowball effect, combined with its powerful algorithm, is the key to its smashing success (Wells, 2019).

To conclude, TikTok is created for making videos by anyone on anything, for anyone on anything and of anyone on anything. The ‘Unique Selling Points’ (USP) of the platform are limiting the platform to short videos, making it easy to internally create those with relatively low effort due to a great integrated video editing software, having an algorithm that makes it, compared to other platforms, incredibly easy to “go viral” even without a big following and being free to use. Due to the combination of these USPs, it appeals to every third teens dream of becoming an internet celebrity (Craig 2019 p. 376).

### **What is “Corporate Entrepreneurship”?**

Corporate Entrepreneurship, sometimes referred to as Intrapreneurship, consists of four key characteristics: Pro-activeness, venturing, innovativeness and self-renewal. (Mokaya, 2012).

The Idea is to create a supportive environment, in a corporate structure, for employees to work independently so that they can generate and implement new ideas and improve processes and systems to enhance firm performance. This is essential since there is an increasing demand for faster product development, more features, higher performance and quality, lower prices and a better corporate structure and work-live-balance in firms. To satisfy these demands a firm needs to be adaptable, flexible, quick, aggressive and innovative. These are all aspects of entrepreneurship. To be able to operate in this dynamic and competitive environment corporate Entrepreneurship was created and implemented. This led to a better performance, growth and profitability for firms (Mokaya, 2012).

### **Explaining “Corporate Entrepreneurships” key characteristics based on the company ByteDances actions with their platform TikTok**

Beijing ByteDance Technology Co Ltd. was founded by Yiming Zhang in March 2012. The company has four products that are all operating under AI technology, out of which two are the main source of revenue. TikTok/ Douyin and their first product TopBuzz/ Toutiao. With the closure of a funding from SoftBank Group Corp., KKR%Co., and General Atlantic, the company

is now valued at \$75 billion, making it the highest valued unicorn, a startup company with a value of over \$1 billion, in 2018. After the launch of TikTok in 2016 they acquired the Apps musical.ly and Flipgram and integrated their features into the platform (Shi, 2019). They even tried to buy Snapchat, Twitter and Quora, which all declined their offer (Wells, 2019). This is where the company showed its first action that revolves around one of the key characteristics of corporate entrepreneurship, proactivity.

Proactivity refers to self-initiated behavior that tries to solve a problem before it has occurred. In this scenario ByteDance acquired musical.ly and Flipagram to use their data to improve TikTok, but also to eliminate potential future competitors and expand their market to other continents (Höfer, 2019, p. 205). This way they solved customer unsatisfaction, due to lacking features, and ineffectiveness of an expansion before it occurred. However, this is not the only incident where they have shown a proactive behavior. Another example for this is the early integration of a creator fund, that allows content creators to earn money through the application, once 10 thousand followers are reached. The two monetization options are earning money through views on your videos and through donations from viewers on live streams. Especially the later one is very interesting, because they implemented a few of the features from the biggest live-streaming platform Twitch (twitch.tv). These features include a chat, custom emojis and a custom TikTok currency called coins worth about €0.015 each, making it a better version of the Instagram-Live feature (tiktok.com and instagram.com). Furthermore, ByteDance established its own AI lab, that focuses on machine learning and deep learning into its products and service to constantly improve their algorithm and identify customer needs, before they are noticed by them (Shi, 2019). Being proactive is essential for any company in this market, because of the innovativeness and aggressiveness of current and future competitors (Mokaya, 2012). The proactive behavior was essential to ensure the success of their expansion, which involved a great risk due to an expensive marketing campaign, revealing the second key characteristic, venturing.

Venturing refers to exposing oneself, as a firm, to the risk of loss for the opportunity to benefit greatly. In 2018, after acquiring musical.ly and Flipagram, ByteDance ran a marketing campaign, spending nearly \$1 billion on advertising for the year directly on their competitors sites like Instagram, Snapchat and the like. Thereby they were able to expand worldwide, which has let them to become, as mentioned before, the most valuable unicorn with an estimated value of \$75 billion (Wells, 2019). This is a great example of the importance and benefit of venturing for a company.

Another factor worth mentioning is that this action was not only beneficial, but probably essential for the success of the platform since it follows the phenomenon of the network effect where the value of a product depends on the number of users, meaning an increase of users directly increases the value of the product and therefore the company (Varian, 1999).

The third characteristic of corporate entrepreneurship is innovativeness, meaning a constant focus, of a firm, on newness and improvement. As mentioned before, the USPs of TikTok as a new emerging social media platform have led to its success. However, innovativeness in the intrapreneurship sense does not stop with the creation of a product. It is a constant factor that ensures a strong market competitiveness and a constant improvement of one's product. An example for how TikTok implemented this theory is its initial targeting of a younger audience. Confident in their ability to expand their market, TikTok initially used the musical.lys audience, which happened to be a young Gen Z audience at the time, to expand in that age group. This way, they were able to acquire a great number of active users without directly competing with other big social media platforms. Doing this, their USPs were not copied, until, through the network effect, they acquired a value that would let them compete on the same level and expand their audience to older age groups (Höfer, 2019, p. 205). However, having a younger audience has forced them to be flexible and self-renew to support these audiences needs, which is the last of the key characteristics.

Self-renewal is the process of constantly adapting to the current needs of customers and satisfying them. Having acquired a large younger audience, TikTok was renewed to be more “family friendly” with constant updates to the community guidelines and filtering options to remove inappropriate videos and delete accounts of such videos (tiktok.com)

## **Conclusion**

As shown, applying the theories of corporate entrepreneurship, consciously or unconsciously, can be a great asset for a large number of firms and should be integrated into existing corporate structures more often.

TikTok is still a relatively young platform and has a lot of potential to grow, but I am sure that as long as ByteDance continues to act in an intrapreneurial way, its smashing success is just the beginning.

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# Rappi: The Future Super-App

*Emma Grassmann*

## The First Unicorn

Over the last decades some of the once believed greatest companies in the world, companies whose products and services were used by everyone, failed.

In fact, only 52 companies that appeared in 1995 on the Fortune 500 list, can still be found on the list of 2019 (fortune.com). One of the reasons for the companies downfalls is the fail to innovate. Nowadays, a company's flexibility and diversification is crucial for being successful in the competitive market (Burgelman, 1983).

The combination of such characteristics combined with the constant search for new opportunities and development of new products and services form the core principle of the business concept Corporate Entrepreneurship (Özdemirci, 2011, p. 612).

One of the companies that implement this business theory is the Latin American E- Commerce company called "Rappi" (rappi.com) founded in 2015 by Felipe Villamarin, Sebastián Mejía, and Simón Borrero and is currently active in 9 countries and 205 cities (Dominguez lino, latamlist.com, 25.10.2020) Rappi began by delivering meals from restaurants to its customers, but soon expanded into services such as delivering groceries, medication, concert tickets and furniture. The drivers, the so- called "Rappitenderos" take between 30min and 1 hour to deliver the wished product or service by bicycle or scooter.

The App is "like the aunt, or friend that is day and night there for you to do you a favor and help you out," said Co- Founder Simón Borrero. It's for people who seem to have everything but time (Ehringfled, Handelsblatt.com, 2019).

Today, Rappi is not only Rappi anymore, it's RappiPay, RappiPrime, RappiBlog, RappiTravel and RappiOne (rappi.com). Costumers are now able to pay over the companies very own paying system in collaboration with Visa Inc (rappicard.mx), become prime members and enjoying multiple advantages (rappi.com), staying updated through the companies own blog (blog.rappi.com) and book their next travel destination (viajes.rappi.com). Businesses which work



in collaboration with Rappi can conduct data concerning the shopping behavior of their customers in order to boost their sales (one.rappi.com).

The company's value is estimated at around 3,5 billion US\$ (Ehringfled, handelsblatt.com, 2019). after receiving 200 million US\$ of funding in 2018 and 1 billion US\$ in 2019 from the Japanese SoftBank Group making it the first Columbia based unicorn (Solomon, reuters.com, 2020).

## **A Closer Look**

### *The Theory of Corporate Entrepreneurship*

The development of new products and processes, constant innovation and diversification is essential for maintaining a company's competitiveness in the market (Corbett et. al.,2013, p.812). The difficulty is to not get lost within the developing of new ideas, but to manage them and sort them out. Robert A. Burgelman calls this the "experimentation- and- selection process". Managers need to collect and select the ideas which fit the company's theory the best (Burgelman 1983).

In addition, there are four dimensions included in Corporate Entrepreneurship: Innovativeness, self- renewal, proactiveness and venturing.

Firstly Innovation: Due to the continuous innovation of products, services and processes the company is able to maintain or develop an advantage. Through the implementation of innovation, the company is able to react quickly to changes in for example technology or society and its demands.

Secondly self- renewal: Through the usage of said innovation, the company is able to transform its strategy and redefine its business model. When change occurs in the mindset of society, for example wanting transparency and companies to become sustainable, the company needs to change itself to fit the expectations of its customers in order to stay competitive.

Thirdly, proactiveness: Being the first to discover and seeking out new opportunities, the company is enabled to secure the first- mover advantage and becomes the top- of- mind brand.

Fourthly venturing: Taking risks and using resources for innovative ideas, even if the outcome is unknown is one of the core principles of entrepreneurial activity. (Özdemirci 2011 p.612f.).

## *Rappi in the Eyes of Corporate Entrepreneurship*

Rappi fulfills every aspect and dimension of Corporate Entrepreneurship and even pushes them further.

The company is constantly innovating itself by developing new services and introducing new collaborations, for example with Sony to deliver the new PlayStation in Columbia (Ehringfeld, handelsblatt.com, 2019). Through projects like these, Rappi is working with current companies, developments and demands (Rahul, appsrhino.com, 2020).

At first, it can be assumed that Rappi is in fact constantly renewing itself and it is in a way, but such renewing like adding new services is already implemented in the business theory and concept.

Rogério Pagliari, RappiPay leader in Brazil said concerning this topic (Lima, labsnews.com, 2019):

*“We always think about what we are doing to improve people’s lives, and if we have an idea, we launch a prototype in two weeks, which helps us understand what can be improved and whether or not we should follow through.”*

The company is taking risks, trying new things out and uses the experimentation – and – selection process which was mentioned earlier.

### *Is it working?*

Although Rappi is by far not the only delivery service in Latin America, it is one of the most popular among others. UberEats (US), a global food delivery company and the grocery delivery services Cornershop (Mexico/ Chile) and Glovo (Spain) are representatives of the competition in Latin America (Lustig, nathanlustig.com, 2019).

Nevertheless, Rappi caught the attention of the costumers and investors which led to it becoming the first unicorn based in Columbia (Moed, forbes.com, 2018).

Jose Jair Bonilla, CEO of Imiaginos and supporter of launching Rappi, sees the reason for its success in the implementation of Corporate Entrepreneurship. The possibility for employees to experiment with new ideas in order to keep up with the social changes differentiates Rappi from most of its competitors (blog.rappi.com, 2008).

Others see the reason in fact not in the business model but more in the environment the company is placed in: The accessibility for such services has increased immensely. Nearly everyone nowadays owns a smartphone or a computer. Additionally, it is claimed that the behavior and mind set of consumers has changed: They want to make their life easier and are looking for the perfect solution (Moed, [forbes.com](https://forbes.com), 2018).

## **What Will the Future Bring?**

The Latin-American delivery service Rappi uses the theory of Corporate Entrepreneurship which states that constant innovation, self-renewal, proactiveness and venturing is necessary for companies to stay competitive in the market. Due to the combination of those factors, Rappi is now the fastest growing company in Latin America.

There seems to be no ending for this growing company. Where in fact a lot that can go wrong: Rappi on the one hand enables many people to work and supports the life of its customers by giving them time to do the things that truly matter. On the other hand, it allegedly failed to comply with regulatory orders which led to the Superintendence of Industry and Commerce, which oversees markets and consumer rights, to open up an investigation ([vanegasmorales.com](https://vanegasmorales.com), 2019).

They received consumer complaints concerning for example misleading advertisement and abusive clauses. They found that Rappi issues “rappicredits” rather than refunding money on returned or unwanted products, conceal additional costs like taxes and charges bank cards without any authorization given. Measures the company needs to implement now include creating a channel which allows customers to file their complaints, informing them of the total price and indicate how they can exercise their right to retract their order.

In addition, a separate investigation has been opened by the Labor Ministry concerning the working conditions of the driver which includes unpaid holidays, no payments for health care or pension and no insurance for work accidents (Kalmanovitz, [worldcrunch.com](https://worldcrunch.com), 2019).

These are not the only obstacles Rappi is facing: A closer look to Rappi’s Revenue Model reveals that the company, after being launched 5 years ago, is not yet profitable. The only way Rappi is earning money, except for the funding it receives, is through small commissions they charge the stores on each order, charging businesses for advertising and marketing their stores by sending

costumers notifications of product or service suggestions and collecting data on their costumers (one.rappi.com).

It is questionable for this revenue concept to work and if Rappi is going to become profitable in the future. But as stated in the beginning, Corporate Entrepreneurship is not about knowing the future but about trying things and taking risks.

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# **Borussia Dortmund: Success Through Lived Corporate Entrepreneurship?**

*Milena Hajto*

## **Introduction**

Borussia Dortmund (BVB) is an internationally known and successful German football club playing in the Bundesliga. Amongst other things, it is best known for its sporting accomplishments, long tradition, loyal fans and Germany's biggest stadium. Football is an established and very popular sport in Germany, fascinating millions of people, that has grown into a multi-billion euro business with constant changes and new challenges. Hence, it has become crucial for football clubs to operate like large firms in order to sustain and build on their competitive advantage. In 1999, the professional football team of the club Ballspielverein Borussia 09 e.V. Dortmund was outsourced and incorporated into a company, Borussia Dortmund GmbH & Co. KGaA. The newly founded company has a sophisticated strategy and concept that offers financial and strategic advantages, which helped to achieve past successes and will pave the way for the future of the football club. In this chapter, it is elaborated, where the ideas of corporate entrepreneurship can be found in said strategy of the firm Borussia Dortmund GmbH & Co. KGaA.

## *Data*

All information on the company and football club in this chapter can be found on their website. Furthermore, information on numbers and statistics of the Bundesliga can be found on the website of the Deutsche Fußball Liga (DFL).

## **Borussia Dortmund and Corporate Entrepreneurship: Company and Theory Combined**

### *Borussia Dortmund: A Brief Overview*

In 1909, the club Ballspielverein Borussia 09 e.V. Dortmund was established, making it one of the founding members of the Bundesliga in 1963. Since then, they went on to win the Champions

League once, the German cup four times and the German championship eight times and are one of the leading clubs in the German first division, being the all time second in the Bundesliga.

In 1998, the German football association (DFB) changed their statute and hereby gave football clubs the possibility to change their form of organisation (Bäune, 2001). In 1999, the economic business activities liable to tax, including the professional football team, of Ballspielverein Borussia 09 e.V. Dortmund were outsourced and incorporated into the newly founded company Borussia Dortmund GmbH & Co. KGaA. It has six subsidiaries and an affiliate, holding 100% of the shares for BVB Stadionmanagement GmbH, BVB Merchandising GmbH, BVB Event & Catering GmbH, besttravel dortmund GmbH, BVB Fußballakademie GmbH, BVB Asia Pacific Pte. Ltd. and 33.4% for Orthomed Medizinisches Leistungs- und Rehabilitationszentrum GmbH. Their business structure not only meets the necessary requirements set by the DFL for a football club to compete in the Bundesliga but also offers many financial and strategic advantages (Friedl, 2020), such as going public at the stock exchange as the first German club in 2000. A considerable amount of ideas that have and still are shaping this company and its achievements are fundamental characteristics of corporate entrepreneurship.

### *Corporate Entrepreneurship*

Although there are many definitions for corporate entrepreneurship by different scholars (Gautam & Verma, 1997), in this chapter the main characteristics of this business theory defined by Guth and Ginsberg (1990) are used to explain and examine said theory and later on compare it to the business strategy of Borussia Dortmund GmbH & Co. KGaA. According to these scholars the two central features of corporate entrepreneurship are “(1) the birth of new businesses within existing organizations, i.e. internal transformation or venturing; and (2) the transformation of organizations through renewal of the key ideas on which they are built, i.e. strategic renewal.” (Guth & Ginsberg, 1990, p. 5). Put differently, corporate entrepreneurship describes the implementation of entrepreneurial activities in an established firm. It amplifies substantial business properties such as internal progression, the exploration of new markets, development of new products or acquisition of other enterprises (Zahra, 1991). As a result, it confers the company crucial qualities for continuously innovating itself, competing successfully, increasing fiscal performance, improving productivity of the employees and minimising the overall business risk (Serpa, 1987). Such important characteristics are especially seen in the field of professional sports. Due to the

commercialisation of football, the clubs had to find new ways and strategies to be able to adjust to the new conditions and profit from them (Klimmer, 2003). Sascha Schmidt, director of Sports Business Academy WHU, stated in an interview with the 'Manager Magazin' that a high level of flexibility, the combination of process efficiency and routines with a strategic foresight are necessary to be successful as a football club. The key is to merge the established processes and structure with creativity and the willingness to innovate (Oediger, 2016).

### *The Fusion of Company and Business Theory*

Borussia Dortmund is very aware of this merge and declared on their website that “it will take a great deal of professionalism and creativity” to maximise the success of their football team and thereby also financial profits associated with it in their other branches. It is apparent that the company implemented central ideas mentioned above. A meaningful reason for their success is the revision of their business structure in 1999. The spin-off of the professional football team into the company Borussia Dortmund GmbH & Co. KGaA was a “birth of a new business” (Guth & Ginsberg, 1990, p. 5) within the already existing football club Ballspielverein Borussia 09 e.V. Dortmund. The advantages that consequently occurred were of financial and strategic nature. Since clubs were dependant on member fees and donations, the “strategic renewal” (Guth & Ginsberg, 1990, p. 5) of the company offered new financial possibilities, such as giving investors the ability to buy shares of the firm. Furthermore, it gave the opportunity to rethink old structures and to assimilate them to those of a company that has a multi-million euro revenue just like Borussia Dortmund GmbH & Co. KGaA does (Friedl, 2020). In 2018/2019 alone they had a revenue of approximately 460,000,000 euro.

The main goal of the firm is the sporting success without incurring financial losses. However, they also recognised the importance of exploiting new markets (Guth & Ginsberg, 1990) related to their product: football - another key point of corporate entrepreneurship. By using their brand 'Borussia Dortmund', built on the football club, they are able to explore new fields of the business and increase their revenue. Since Borussia Dortmund GmbH & Co. KGaA has six subsidiaries they can focus on the target group in detail and specialise their strategy and individual innovative approach for each one. Burgelman (1983, p.1349) refers to this process as “diversification through internal development, [which] requires new resource combinations to extend the firms's



activities in areas unrelated, or marginally related, to its current domain of competence”. This can be exemplified by on one of the subsidiaries, besttravel dortmund GmbH. It builds on the brand of the football club but exploits a new area, marginally related to their core business since it also offers sports themed travels.

## Conclusion

Professional football has grown into an ever changing business that requires quick and flexible agency from its competitors. The football clubs themselves had to adapt to the new conditions. All things considered, it can be said that Borussia Dortmund quickly realised what potential the new possibilities had and transformed their club into a large working company. Characteristic elements of corporate entrepreneurship, such as innovation and strategical renewal as well as internal modification played an impactful role in said transformation and are possibly one of the reasons for the continuous success of the football club and therefore also of the company Borussia Dortmund GmbH & Co. KGaA.

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# Corporate Entrepreneurship at Google

*Leif Kiesbye*

## Introduction

The concept of Entrepreneurship is often just related to start-ups or young businesses in general, following an innovative and creative vision. Nevertheless established companies and organisations try to incorporate the philosophy behind Entrepreneurship to avoid laziness and passiveness regarding innovation, which could endanger their current success. Particularly in the 21st century, where disruptive technologies, individuality such as constantly changing markets define the economy, Corporate Entrepreneurship emerged from a theoretical concept into practical application (Kuckertz, 2017). The organisation Google, known for their core business the online-search-engine, is also associated with Corporate Entrepreneurship.

## What is Corporate Entrepreneurship?

Corporate Entrepreneurship (CE) is Entrepreneurship beyond the context of the start-up scene and is therefore understood as a subcategory of the general term Entrepreneurship. The focus of Corporate Entrepreneurship lies on the entrepreneurial behavior of established organisations and describes the process where teams or parts related to the established organisation develop and launch a new business or invention, which is different from the parent company (Wolcott & Lippitz, 2007). It can also be a strategic renewal of an established organisation (Fueglistaller et al., 2019). CE stands for an innovative behavior, which is incorporated into the culture and strategy of the organisation and thereby supported financially (Fueglistaller et al., 2019). Furthermore, CE aims to stay ahead of competitors and due to CE being as innovative, creative and flexible as young companies. CE intends to combine current achievements as network, market position and financial resources from the established organisation with advantages from young companies to discover new markets (Wolcott & Lippitz, 2007), while trying to keep a balance between “new “ and “old“ (Kuckertz, 2017). Another aspect of CE is the differentiation of corporate venturing into internal corporate venturing and external corporate venturing. While corporate venturing, also corporate management, in general implies the strategy and concept used to support innovative projects, internal corporate venturing focuses on projects or teams within the parent company such as technology accelerators (Kuckertz, 2017). External corporate venturing on the other hand is related

to Corporate Venture Capital (CVC)<sup>27</sup>, Spin-offs and Joint Ventures (Fueglistaller et al., 2019). The concept of Entrepreneurial Orientation hinds to which extension CE is converted into reality and therefore reflected in the management of the organisation (Kuckertz, 2017).

## **Characterising Entrepreneurial Behavior in Established Organisations**

Entrepreneurial Orientation (EO) functions as a measurement and clarification of Corporate Entrepreneurship (Kuckertz, 2017) and is intending to characterise entrepreneurial behavior. The concept of EO is divided into five key dimensions: autonomy, competitive aggressiveness, innovativeness, proactiveness and risk-taking (Kuckertz, 2017). Autonomy focuses on whether individuals are provided with freedom regarding entrepreneurial thinking. Competitive aggressiveness stands for the willingness to face challenges with competitors and the constant aim to improve, which is essential for organisations related to CE. Additionally innovativeness another key concept describes to which extension organisations are willing to adapt the “new“ and whether they are funding research. Proactiveness identifies whether actions of the organisation are anticipated or seen as a reaction. The last aspect of EO, which characterises entrepreneurial behavior in established organisations, is risk-taking. This five key dimensions can also be a potential threat, when they are implemented in an inadequate way (Kuckertz, 2017). Furthermore Individuals are seen as the starting point of entrepreneurial behavior and therefore Intrapreneurs play an important role in CE (Kuckertz, 2017). Intrapreneurs are employees, which act on the one hand like Entrepreneurs and on the other hand they complete management tasks. Another aspect characterising CE is a positive corporate culture, allowing mistakes (Kuckertz, 2017).

## **Corporate Entrepreneurship at Google**

Google was founded in the year 1998 by Larry Page and Sergey Brin in California. Nevertheless, Google is still considered to be one of the most innovative organisations. In 2015 Google was restructured to keep innovation on a high level and Alphabet was founded, which is an umbrella company including Google and many other companies from different sectors related to Google. In the following CE will be clarified and discussed at the example of Google. In this context,

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<sup>27</sup> CVC: Capital which is direct or indirect invested into start-ups or other businesses (Fueglistaller et al., 2019)

important data sources are the websites of Alphabet and companies directly related to Alphabet, such as the websites of Google X, Google Venture, Capital G and Gradient Venture.

### *Internal Corporate Venturing at Google*

At Google almost every employee is an Intrapreneur, provided with a certain amount of Autonomy. The company invests every year hundreds of million dollars into a project called “20-percent-time“. “20-percent-time“ is a project which forces employees to think entrepreneurial, as it gives every employee the possibility to invest 20% of their work-time into own ideas and projects (Schmidt & Rosenberg, 2015). Google acknowledged that innovativeness is heavily influenced by the creativity and passion of the individual. Often employees combine their 20% time and join forces, which then has the character of a start-up within Google. It also creates an atmosphere close to the real entrepreneurial environment, as the different projects are fighting for funding and further resources (Schmidt & Rosenberg, 2015). One of the most famous innovations developed within the “20-percent-time“ project, which was later taken over and funded, is the browser-based e-mail system Gmail. Although the majority of these projects do not succeed and consume a significant amount of time and money, Google encourages their employees to keep one inventing new items with the potential to succeed (Schmidt & Rosenberg, 2015). Over time Google established a system for resource allocation, which indicates their willingness to take risks and invest in the future. The rule 70/20/10, which was developed by Sergey Brin, is the basis for their resource allocation and divides their projects into three different categories (Schmidt & Rosenberg, 2015). About 70% of Google’s resources are directed towards projects and inventions directly related to their core-business. Another 20% of their resources are invested into projects, which are rising and already showed some success. 10% are provided for totally new and innovative projects with a high risk. In total 30 % of Googles resources are invested into products, which are innovative and not part of their core business. It is considered to be an adequate balance between the core business and new inventions, as Google still launches 500 improvements of their search engine every year (Schmidt & Rosenberg, 2015).

### *External Corporate Venturing at Google*

Another feature from Corporate Entrepreneurship, external corporate venturing, is established and realised at Google. Google has several Spin-offs in different stages and sectors, which are since

2015 part of the parent company Alphabet. Google X is one example focusing on the development of breakthrough technologies to improve humans life. Another example for a Google Spin-off is Waymo, which is revolutionising autonomous driving and thereby competing with famous car manufacturers. Moreover Google has several investment vehicles including three Venture Capital Funds, which are operating mostly independent within the parent company Alphabet. Google Venture its largest venture capital fund has currently 300 active companies from different stages and sectors in their portfolio. Capital G and Gradient Venture are Google's more specialized Venture Capital Funds, as Capital G focuses on later stage tech companies and Gradient Venture on early stage AI start-ups. Google implements external corporate venturing to discover new markets such as generate knowledge and revenues.

### *Strategic Renewal of Google*

Establishing Alphabet in 2015 was a strategic renewal of Google, which restructured Google into two main parts operating under the holding company Alphabet (D'Onfro, 2019). The core-business of Google was separated from its more experimental side such as Capital Venture Funds and other sections with high risks. The aim was to provide every business operating in the experimental side with an own CEO and make them financially independent (D'Onfro, 2019). Google reorganized the structure to give their subsidiaries room to develop and operate more efficiently and faster (D'Onfro, 2019). Furthermore it used a strategic renewal, which is a part of Corporate Entrepreneurship, to keep innovation on a high level, but also to minimise the risk for their core-business as they separated it from their experimental side. Google understood, that it is important to keep a balance between new and old, which also implies not taking extreme risks.

### **Conclusion**

Google is an innovative organisation with the constant aim to improve and regarding the Boston Consulting Group since 2006 annually among the three most innovative companies worldwide. Google's entrepreneurial attitude, which is defined by Corporate Entrepreneurship, makes Google operate even 22 years after their foundation in some ways like a start-up. It established a special corporate culture, which encourages every employee to think entrepreneurial and be creative. Google is an example for successfully implementing the concept of Corporate Entrepreneurship.

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# Amazon: A Striking Example for Corporate Entrepreneurship?

*Helen Koch*

## Introduction

Founded by Jeff Bezos in 1994, Amazon has evolved into one of the world's most valuable brands (Dutta, 2018). Starting out as an online market for books, Amazon has quickly expanded its business into many more branches. Today, it is a multinational company offering a variety of technological products and services like Amazon Web Services, whose solutions include machine learning, analytics, and data lakes (Amazon, 2019). Although having developed into a company of immense size with 840,000 employees (Amazon, 2019), increased bureaucracy has not stopped Amazon to continuously invent products and tap new markets. Consequently, Amazon has shown an outstanding ability to succeed in a wide range of product categories over the past years. How does a company of this size manage to keep an entrepreneurial spirit? The following chapter seeks to answer this question by analysing Amazon's work environment in relation to corporate entrepreneurship, a crucial concept to maintain an innovative and proactive business environment.

## What is Corporate Entrepreneurship?

The concept of corporate entrepreneurship originated in the 1990's and involves entrepreneurial behaviour within established organisations, aiming at creating value and generating new revenue growth (Guth & Ginsberg, 1990). This includes the possibility for employees to develop innovative businesses even beyond the resources they presently control (Hisrich & Kearney, 2011). Additionally, corporate entrepreneurship entails the transformation of organisations through strategic renewal (Guth & Ginsberg, 1990).

### *Entrepreneurial Orientation*

A company's propensity to provide an environment that enables corporate entrepreneurship can be measured by assessing the company's entrepreneurial orientation (EO). To this end, Lumpkin and Dess (1996) formulated five dimensions of EO which will be reviewed below.

## **Autonomy**

Individual entrepreneurs are known for their independent thinking when starting new ventures (Lumpkin & Dess, 1996). Hence, to induce an entrepreneurial mindset in larger corporations it is necessary to grant employees sufficient *autonomy*. Ensuring freedom for autonomous conduct avoids “stifling organisational constraints” (Lumpkin & Dess, 1996, p. 140). *Autonomy* may be either autocratic or democratic. Autocratic, if entrepreneurial behaviour is characterised by a “centralised vision and strong leadership” (Lumpkin & Dess, 1996, p. 141) and democratic, if all individuals are able to suggest ideas to managers on higher levels.

## **Innovativeness**

Next, entrepreneurship is inherently linked to innovation (Schumpeter, 1934). Therefore, *innovativeness* is a vital factor for a company’s EO. It involves product, service, and technological innovation and focuses on a firm’s tendency to support creative processes. Further, the dimension implies the deviation from established technologies or practices with the aim to venture beyond prevailing norms (Kimberly & Evanisko, 1981).

## **Risk Taking**

A firm’s strong inclination for risk may augment corporate entrepreneurship because entrepreneurial behaviour is characterised by uncertainty and riskiness (Lumpkin & Dess, 1996). For instance, *risk taking* implies “venturing into the unknown” (Lumpkin & Dess, 1996, p. 145) with a new product or geographic market.

## **Proactiveness**

Pursuant to Lumpkin and Dess (1996), *proactiveness* suggests a forward-looking perspective when operating innovation-driven and venturesome, independently of competitors. It mirrors a company’s willingness to draw upon new market opportunities and may promote first-mover advantage. Accordingly, this facilitates crucial competitive advantage or even creates demand.

## **Competitive Aggressiveness**

With the central goal to gain competitive advantage, *competitive aggressiveness* refers to how companies react to existing trends and demands. Importantly, *competitive aggressiveness* is

classified as a response to other competitors. Hence, a distinction between *proactiveness* and *competitive aggressiveness* must be made (Lumpkin & Dess, 1996).

## Amazon and Corporate Entrepreneurship

### *Amazon's Internal Structure*

Due to Amazon's remarkable size, its structure is mainly hierarchical (Amazon, 2020b). All top-level managers, for example the senior vice presidents, report directly to the CEO Jeff Bezos (Amazon, 2020b). At the same time, small project teams operate independently, making it easy for Amazon to swiftly react to adjustments in the market (Wu, L., Wang, D. & Evans, 2019). Bezos established the 'two pizza rule' which implies that teams should be small enough to be fed with two pizzas, enabling "robust, high-throughput innovation" (Amazon, 2013, p. 6).

### *Leadership Principles*

A company's performance and EO are greatly influenced by its culture (Dutta, 2018). Amazon has published 14 leadership principles that align well with EO and shape the company's culture (*Figure 1*), as employees are encouraged to use them as guidance for everyday operations or job interviews (Amazon, 2020a). In the following, some of these principles are linked to the five dimensions of EO to assess how Amazon's work environment supports corporate entrepreneurship.

<b>Customer Obsession</b>	<b>Ownership</b>	<b>Invent and Simplify</b>	<b>Are Right, A Lot</b>
<b>Learn and Be Curious</b>	<b>Hire and Develop the Best</b>	<b>Insist on the Highest Standard</b>	<b>Think Big</b>
<b>Bias for Action</b>	<b>Frugality</b>	<b>Earn Trust</b>	<b>Dive Deep</b>
<b>Have Backbone; Disagree and Commit</b>	<b>Deliver Results</b>		

*Figure 1: The 14 Leadership Principles of Amazon (Amazon, 2020a).*

## Customer Obsession

Customer obsession implies a “relentless and total focus on the customer at all times” (Dutta, 2018, p. 10) and is a central principle at Amazon since its inception. Moreover, it sets the company apart from other technology companies that are more focused on competitors (Dutta, 2018). The emphasis on customer’s needs prompts Amazon to constantly innovate, as employees are pushed to think of ways to increase customer happiness at all times (Amazon, 2019). Hence, considering EO, this principle drives the dimensions of *innovativeness* and *proactiveness*, leading to increased product and service offerings. Simultaneously, as Amazon places more focus on customers than on competitors, the principle of customer obsession seems to run contrary to the dimension of *competitive aggressiveness*. Instead of focusing on competitors, Amazon pursues the motto “we invent before we have to” (Amazon, 2012, p. 1), showing high levels of *proactiveness* and self-competition which again support corporate entrepreneurship.

## Ownership

At Amazon, every employee is encouraged to independently take responsibility for their ideas and operations, irrespective of whether these are beyond the limits of their own domain (Amazon, 2020a). Therefore, the work environment inherently reflects the first EO dimension of *autonomy*. Additionally, as mentioned above, Amazon stresses the importance of small teams which automatically leads to higher individual responsibility and increases *autonomy* among employees.

## Invent and Simplify

Lastly, the principle ‘invent and simplify’ significantly drives the EO dimension of *innovativeness* on two levels: employees are required to think of innovative ways for both product invention and process simplification (Amazon, 2020a). Moreover, the notion of corporate entrepreneurship is fostered by Amazon’s approach to the development of new products. Amazon launches early and grants more resources to projects as soon as they show success on the market (Amazon, 2013).

## *Influence of Jeff Bezos*

Additionally, corporate entrepreneurship at Amazon is largely influenced by the visionary personality of Jeff Bezos and his role within the company. Bezos himself has a major individual

entrepreneurial orientation and thus strongly encourages and embodies corporate entrepreneurship at Amazon (Stone, 2013). Further, the 14 leadership principles that align with EO mirror his own leadership style which sets an example for all team leaders within the firm.

## **Conclusion**

To answer the question whether Amazon is a striking example of corporate entrepreneurship, this chapter first discussed corporate entrepreneurship and a company's entrepreneurial orientation as an indicator thereof. After having assessed some of Amazon's leadership principles as well as the founder's influence, it can be concluded that Amazon has a strong entrepreneurial orientation and thus provides an excellent environment for corporate entrepreneurship. This can not only be seen in its culture, shaped by leadership principles and Bezos's own entrepreneurial spirit, but also in its ventures and innovations over the last decades. Amazon constantly encourages its employees to be entrepreneurial within the firm and to never stop reinventing ideas and concepts. Altogether, these factors make Amazon a powerful example for successful corporate entrepreneurship.

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# **The Concept of Corporate Entrepreneurship within BASF**

*Finn Kühl*

Today's economy is made up out of uncountable fast-changing factors (Kukertz, 2017). Corporate entrepreneurship can support companies to adapt to the gigantic number of new trends in order to catch up with the speed of development and even lead the wave of change by being proactive and innovative.

## **Definition of Corporate Entrepreneurship**

The term corporate entrepreneurship has been shaped by various definitions during the past decades (Kuratko et al., 2011). Reiter (2016) defines corporate entrepreneurship as all entrepreneurial actions and behavior inside an established organization or company that outlast the initial starting phase. The main goal is to integrate the benefits of being a startup, namely their creativity, flexibility and swiftness into established companies to remain innovative. Ling et al. (2008) further extend this definition by characterizing corporate entrepreneurship as a composition of the above-mentioned innovation strategy, corporate venturing and advantageous structural changes, which enables companies to take advantage of market possibilities and to establish new products.

## **How to Enable Corporate Entrepreneurship**

One important factor to enable corporate entrepreneurship is the organizational structure of a firm (Kukertz, 2017). It is essential for company to provide a fitting framework to implement this concept. Firstly, the management has to create a supportive atmosphere for entrepreneurial spirits and ideas, which includes the access to resources such as money, people, time and relationships (Reiter, 2016). In addition, the management has to minimize the bureaucratic barriers and/or assist internal entrepreneurs to avoid them. Secondly, employees need the freedom to work more autonomously in order to arrange their individual time and work management based on trust (Reiter, 2016). They need flexible organizational boundaries to have the possibility to create free space to pursue their individual ideas. Additionally, human resource management has to adapt their employee acquisition and shift their focus to characteristics embodied by entrepreneurs like creativity and proactivity when recruiting new employees (Kukertz, 2017). They also have to



create work places with less structural guidelines and fill vacancies with people who carry entrepreneurial values to promote autonomous work (Reiter, 2016). Another factor is the motivation of employees to be innovative and willing to take risks. Therefore, the management has to communicate clearly that they demand independent thinking (Reiter, 2016) and are willing to create a balance between rewarding successful ideas and tolerating mistakes (Kuratko et al., 2011).

## **Corporate Entrepreneurship Through Cooperation**

It has become more popular for established companies to implement corporate entrepreneurship by working together with startups or even founding them. A well-proven method is to cooperate with startups through external corporate venturing, which describes the inclusion of new external projects and activities alongside the usual business model (McNally, 1997). Therefore, many established companies create a separate venture capital company to invest in unlisted startups and benefit from financial returns and more importantly strategic advantages. Companies invest in those startups to gain strategic knowledge about promising developments and new market fields that they want to expand in. Later on, there is often a possibility of acquisition, if the startup has proven successful. A second method, which has been developed more recently, are incubator programs (Reiter, 2016). As the name indicates the program is launched by established companies to create a protected sphere for startups to develop over a phase which usually lasts up to a year. A protected sphere is often characterized by financial aid and access to company resources such as work space, technological knowledge and support from experienced advisors to boost capabilities in areas in which start ups usually lack expertise in. Companies mainly benefit from the strategic knowledge developed in the startups, in which they usually hold a stake or acquire ownership in exchange for their support.

## **The Case of BASF**

All data about BASF is retrieved from their website ([basf.com](http://basf.com)) and the website and social media channels (Instagram, Twitter, Youtube) of their subsidiary company Chemovator GmbH ([chemovator.com](http://chemovator.com)).

BASF was founded in 1865 as “Badische Anilin und Soda Fabrik“. Today it is the largest chemical producer in the world regarding the annual revenue of 58.316 billion euros in 2019 and employs

117,500 people with approximately half of them working in Germany. Their product portfolio ranges from chemicals and materials to industrial solutions, surface technologies, nutrition and care and agricultural solutions. BASF owns approximately 110,000 patents, more than any other company in the world and annually registers around 1,000 ones. This thrive for innovation and new solutions is also embodied by the chief technology officer's company vision, who stated on their website that "innovations made BASF the leading chemical company. [...] As the most innovative chemical company we take a special responsibility here, because innovations based on chemistry are key to those answers." (Brudermüller, 2018, Innovation section). This self-perception of BASF, to be the most innovative chemical company, is an intelligible motive to implement a concept like corporate entrepreneurship to live up to those ambitions.

## **In What Ways Does BASF's Strategy Relate to Corporate Entrepreneurship?**

### *Organizational Structure*

BASF builds on the independence of their employees, which means they define a framework to encourage and reward entrepreneurial behavior and willingness to take risks (Wunderer, 2001, as cited in Kukertz, 2007).

Therefore, they set positive working conditions for intrapreneurs as they show on their website's career section. Firstly, they apply a management approach based on performance with a focus on appreciation of accomplishments, new impulses for innovation and fairness. Hence, employees who are willing to take risks also get rewarded individually for their ideas. To recognize and follow-up on those accomplishments BASF schedules two annual personal meetings for each employee with their supervisors. Thereby, employees can get feedback on their performances and have the possibility to bring in additional impulses. Another important factor to implement corporate entrepreneurship are flexible boundaries (Reiter, 2016), which BASF solves by providing their employees with a mobile working space and the possibility to self-organize their working hours. BASF has also founded several ventures, for example BASF Venture capital GmbH and Chemovator GmbH to increase entrepreneurship and innovation outside of the core company which I will elaborate on in the following paragraphs.

### *Worker Motivation*

Firstly, as the initial citation has already shown, BASF is clearly communicating the message that entrepreneurial initiatives and ideas are desired. On their website they also state that above average performance and successful out of the box thinking are rewarded with promotions. In order to reward according to the performance, BASF has a policy of variable remuneration so that each employee can benefit individually from their personal or team accomplishments. In addition, BASF offers development programs to engage their employees in innovative thinking.

### *BASF Corporate Venture GmbH*

As mentioned beforehand, established companies like BASF can profit from a separate venture company by mainly strategic benefits within areas of their core business and different industrial sectors. The BASF Corporate Venture GmbH is part of BASF's innovation strategy and contributes to the internal innovation process. They cooperate with companies working in the traditional area of chemistry and engage in other industrial sectors such as new materials, sustainability, digitalization and new, disruptive business models. Besides their investments, they actively work together to stimulate growth of the companies in their portfolio. This cooperation includes sharing of technological and economical knowledge and also the access to internal and external resources of BASF, for instance the usage of sales channels and making contact with suppliers. Their strategy is to invest future-oriented which means that their investment and cooperation have no time frame. BASF benefits from the developed knowledge about new technological products and solutions, which can be useful for innovation in their core business and expansion into new areas.

### *Chemovator GmbH: The Incubator of BASF*

BASF has also created a venture to enable an internal incubator program called Chemovator GmbH. It is a protected space for BASF intrapreneurs and gives them the possibility to found their own startup in a two-year program while providing them with resources, mentors and headquarters in the Chemovator's building complex in Mannheim. Thus, BASF can test early-stage business ideas, so that they can form new spin-offs, if the business models have been proven successful and simultaneously stimulate their employee's entrepreneurial engagement.

## Conclusion

BASF is implementing various strategic tools, which resemble the concept of corporate entrepreneurship in many ways. They use entrepreneurial strategies by forming new ventures to use the flexibility and creativity of startups for their own company's progress in order to maximize their development in a competitive market. In addition, BASF takes proactive measures within their organizational structure to develop and support entrepreneurial thinkers. They also provide flexible boundaries and a supportive atmosphere to enhance innovation within the company. Accordingly, BASF builds a strategic basis for their future by expanding in new industrial sectors through corporate venturing, acquiring knowledge about new markets and enlarging their product portfolio.

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# Corporate Entrepreneurship and Incubation: The Example of the comdirect Start-up Garage

*Johannes Lindhorn*

## Introduction

In this book chapter, I am going to talk about general corporate entrepreneurship, how it works, why we need it, and why it helps companies to succeed. I am going to examine, what key points define businesses that are prosperous and how they can use corporate entrepreneurship to stay in a good position in the market, or perhaps get an advantage over their competitors. I am looking at corporate accelerators and how they work, before conducting a case study on the Comdirect start-up Garage.

## Corporate Entrepreneurship

### *Overview*

Corporate Entrepreneurship stands for using entrepreneurial behavior in traditional and large companies. (Paul Burns, 2013) This means that organizations incorporate young and fresh ideas, like entrepreneurs have, into their businesses. The reasons why they are trying to accomplish this are broad. The most obvious one is to gain a ruthless advantage over their competitors by trying to make use of innovation throughout the whole business. In which case the workflows, as well as the employees from corporate down to project teams and other company-related objects, can be affected. (Paul Burns, 2013) A lot of big businesses are running on business as usual, doing the same things, they did a year ago (A. Kuckertz 2017), because they are settled in their belief, that they should never change a running system. But this is no longer true, the market is changing rapidly and always the same reacting exposes the company to risks. A former German CEO of the German Telekom, René Obermann once compared the restructuring to corporate entrepreneurship with bringing an elephant to dance. (GRÜNDERSZENE, 2013) A well-established company is like an elephant, it's hard to get him to move, but also to run him over. But if you take away his trunk he is going to die if he doesn't find another way to get food. To change something immense in a business you need a lot of power and effort, but a small impact on the global economy on the

other hand is not likely to kill it. However, if the interest and conditions of their customers rapidly change, it can kill the Company if it doesn't react. There comes corporate entrepreneurship into the game.

The main points why businesses succeed nowadays are for most companies the same (A. Kuckertz 2017):

- Adaptability
- Flexibility
- Proactive and aggressive against their competitors
- Innovativeness

With these simple but not easy to implement key points, organizations can react to sudden changes in the market and the World. These alternations may come from a change on the customer side or technological development. Competition, legal and ethical standards, resources, and other nonstable surroundings may have an impact on them (Morris, M. H., Kuratko, D. F., & Covin, J. G. 2010)

To discover how good persons in companies implement the points above, a test, the General Enterprising Tendency Tests (GET) is conducted. It is measuring the enterprising tendency and is pointing on five attributes. These are:

- Need for achievement
- Need for Autonomy
- Creative Tendency
- Calculated Risk-taking
- Locus of control

With these interpretations, the enterprising attributes of an employee can be discussed. (Caird, Sally, 2013)

The CEOs and leaders of companies often have Managers which do these entrepreneurial tasks for them. These employees often have an entrepreneurial spirit for themselves and use them in their jobs. By taking risks and trying new ways, he is taking responsibility for his work, but can also produce totally new business areas. These are called intrapreneurs.

Summarized: Corporate Entrepreneurship tries to implement the spirit and actions of Entrepreneurs into large Companies. This is done by making an effort to be autonomous, creative, and taking risks. It is needed because the world around the businesses is always changing and the organizations are trying to stay in their positions and get an advantage over their competitors.

### **Corporate Accelerators**

In corporate entrepreneurship, innovation plays a big role, because it is nonstop generated, so the companies always need to react to it, in order to prevent a head start of the competition. To get an advantage instead, innovation itself is needed from the organizations. And there comes corporate incubation or accelerators into play. With these, big businesses cooperate with startups to produce innovation with them. To use the dynamic of the small businesses with the resources of the big corporations they work together but still as separate businesses. (Smolinski; Gerdes, Siejka, Bodek; 2017)

### **Case Study: comdirect Start-up Garage**

A start-up-Garage is one possible way, of providing a gateway between Companies and startups. It allows the organizations to get into the R&D and innovations, that happens around them in startups and use it for their own. Generally said, is this scheme, in comparison to highly founded incubators, an extremely efficient and sustainable way of corporate entrepreneurship. (Smolinski, Bodek. 2016)

Smolinski; Gerdes, Siejka, and Bodek (2017) stated, that the Comdirect direct bank is making use of this and has its own start-up Garage. Within a three-month trainee program, Startups with nothing more than an idea can come there and produce the first Prototype. The overall goal of the Comdirect Garage is not to produce direct money by owning company shares from the startups, but by producing products with the freshly founded businesses and selling them to their customer. By trading ideas with innovative and creative founders the Comdirect can scale their new approaches into their own business. This happens mainly, when a new concept of one of the startups is so well executed and produces added value for the costumers of Comdirect, that they offer the new service to their large customer base.



### *So Why Should a Startup Work Together With Them?*

There are many reasons, why this is a viable option for them, but the main part is the individual founding program from the Comdirect start-up Garage. This includes access to about 3 Million customers when producing a minimum viable product (MVP), which is an early prototype. (Smolinski; Gerdes, Siejka and Bodek 2017) This is extremely important for new businesses, because they don't have their own customers, aren't big enough to get noticed by new ones and efficient customer acquisition is rather expensive. The comdirect start-up garage also provides a co-working space, where the start-ups can work and communicate with each other. But they can not only provide from each other's information and know-how, but also from comdirect, which provides them with technical support. If they need information and knowledge which the direct bank can not provide, they can use coaching and external mentoring, sponsored by the start-up garage. But the biggest advantage is the financial one. Comdirect provides every start-up with a financial grant of 10.000€ which is not coupled with company shares.

With this, the start-up garage is not an investor but an enabler and a sparring partner, because both sides profit directly from their partnership.

With this collaboration, new innovations can be developed and produced to a scale, where they can impact the market.

### *Results*

By not being an investor but a partner the start-up Garage is able to generate market-leading innovation. To support other companies, which might become your competition, to grow, doesn't look like a smart move in the first place. But with this way of corporate acceleration, comdirect can always be one of the market leaders by having new ideas and concepts. With other businesses-partners getting bigger, they can also profit and continue to cooperate with them.

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# Corporate Entrepreneurship in H&M

*Kubilay Şahin*

## Introduction

There are many definitions of entrepreneurship. In French, the word entrepreneur literally means “undertaker”. In terms of business, different definitions are made such as, “Profits from bearing uncertainty and risk” (Knight, 1921), “Creation of new organizations” (Gartner, 1985), “A dynamic process of vision, change and creation” (Kuratko & Hodgetts, 2004). With simple words, entrepreneurship means seizing on an opportunity to build a business which will lead to growth and gain under circumstances of risk and uncertainty (Dollinger, 2003). Conventional entrepreneurship aside, corporate entrepreneurship is more complicated, since it involves the confounded mechanism of big companies. In this chapter, H&M, the second biggest clothing retailer in the world, will be analyzed in matters of corporate entrepreneurship. The company has launched many entrepreneurial attempts since its foundation. In that matter, several important brands of H&M will be listed and analyzed exclusively to clarify the linkage between its growth actions and corporate entrepreneurship. Among all sub brands, especially, H&M HOME and H&M Conscious Exclusive will be investigated more deeply. Since digitalization requires entrepreneurial features, H&M App and its development will also be pointed. The store manager of H&M Lüneburg, Annett Karacsonyi, will give answers within a brief interview, which is related to the topic, corporate entrepreneurship in H&M.

## Corporate Entrepreneurship

As mentioned before, corporate entrepreneurship is more complicated than controversial entrepreneurship. And definitions for corporate entrepreneurship have also changed through time. In the 70’s, it was more focused on venture teams and how entrepreneurship inside of organizations could be developed (Kuratko et al.,2015). In the 90’s, researchers made more extensive definitions for corporate entrepreneurship such as “New venture creation within existing organizations and the transformation of on-going organizations through strategic renewal.” (Guth & Ginsberg, 1990; Kuratko et al.,2015). However, today, corporate entrepreneurship is linked with companies’ efforts to establish sustainable competitive advantages. That provides companies an opportunity to have

a profitable growth and a risk reduction mechanism while they can compete with their opponents in the market (Kuratko et al.,2015).

## **Who is H&M?**

H&M, Hennes and Mauritz, is a Sweden based multinational company, which mostly focuses on clothing and fashion. The company was founded by Erling Persson in 1947, in Västerås, Sweden. After Inditex, it is the second largest clothing retailer in the world. As of the end of 2019, the company operates in 74 countries with 5076 stores (H&M Annual Report, 2019).

In total, the company consists of nine different brands such as H&M, H&M Home, Weekday, COS, & Other Stories, Sellpy, Afound, ARKET and Monki. Since most of these brands offer fashion and clothing goods, they have different target groups. The different brands that they have, represent the dynamic entrepreneurial movement within the company which will be mentioned in the following paragraphs.

According to the 2019 Corporate Governance Report of H&M, corporate entrepreneurship is one of the important areas, in that experience is particularly required to partake in the elected part of the board of directors. Moreover, H&M lists entrepreneurial spirit as one of its seven company values.

As a huge company, how is H&M organized to act in areas such as analytics, AI, logistics but especially expansion and entrepreneurship? The company is managed with a multi-brand matrix organization. Each of these brands (H&M, H&M HOME, COS, & Other Stories, Monki, Weekday, ARKET) has its own organization and management director. And these brands are supported by central group functions such as business development, controlling, sustainability, legal, communications, accounting, security and expansion. These allow the brands to cooperate with each other and the central in different countries and markets. The matrix organization mechanism gives a good combination of central and local. Therefore, it does not only support the communication between the units of the group, but it also provides local perspectives to the center which are helpful at expansion and entrepreneurial actions.

## **The Brands**

The most known brand, H&M, is the main part of the H&M Group. The brand offers its customers fashion goods for an affordable price. The scale of goods includes accessories, shoes and textile care kits besides clothes. The most significant feature of the brand is its pricing strategy, which also differs it from many other brands of H&M group. Since H&M played a huge role in the history of fast fashion, the brand aims to produce in huge quantities rather than focusing on the quality.

The first store of COS was opened by H&M Group in 2007. The brand offers minimalist designed classical collections which are inspired by graphics and architecture. As of late 2019, COS has 291 stores in 44 markets. Unlike H&M, COS focuses more on quality rather than quantity. This helps to perceive a diversification attempt by H&M Group in the same market.

H&M HOME is a design driven interior brand offering decor and furniture for every type of room and style. H&M HOME was first dispatched online as a home textiles concept in 2009. Although H&M HOME has its own standalone concept stores, its products can be also found in regular H&M stores. The case with H&M HOME is quite important, since it provides another clear example of diversification attempt, which is made by H&M Group for entrepreneurial purposes to expand into another market.

## **Entrepreneurial actions of H&M**

In 2009, H&M launched H&M HOME, a brand of H&M Group, which sells furniture and interior-outdoor accessories and furniture. That allowed H&M to diversify its business in a different product market. Being present in a totally different market helps companies to secure their business. In other words, it works as insurance. This is a common strategy in terms of corporate diversification. In that way, companies diversify their business in different areas, so they can keep running even though one of their businesses gets harmed.

H&M is one of the companies that seized the opportunity and moved towards environment friendly clothing to meet the growing demand of the customers worldwide. In 2010, H&M introduced the first collection of H&M Conscious, which only consists of environment friendly produced goods. Besides gaining a big piece of pie in the sustainable clothing market, H&M also profited by investing in recycling of used textile goods, since cotton has doubled its price in the beginning of the 2010's (Der Tagesspiegel, 2011).

One of the most important areas that H&M expanded into is the digital world. In 2010, H&M has launched its mobile application, which was able to give users the news and information, if there are any deals or discounts. Several years later, H&M App turned into a massive online store. As of 2019, the company still focuses on digitalization and wants to invest more in it. H&M believes that the industry is going through critical structural changes and quick moves in technology because of the expanded digitalization of society. And the H&M App is the response of H&M against these changes.

## **H&M Lüneburg**

H&M was opened in September 2000. The store, which is in the very center of the city, consists of over 30 staff. Annett Karacsonyi, the experienced store manager, has been running H&M Lüneburg for 6 years. She answered several questions, which make it simpler to perceive how corporate entrepreneurship affects the stores. It is important to understand how the decisions that are made by the central are assimilated in the stores, where the customers meet with the products.

**Interviewer:** “Do you train your employees to adopt the innovation that is launched by the center, if yes could you give a brief example how?”

**Annett Karacsonyi:** “We have daily mini meetings, which take approximately 20 minutes, sometimes longer if necessary. The company offers digital training for the employers.”

**Interviewer:** “Do you have any deals to encourage sustainable clothing?”

**Annett Karacsonyi:** “Conscious (the sustainable clothing brand of H&M) is an important topic for us. I refer our online page, there can be found a lot readings about H&M Conscious.”

**Interviewer:** “Does the center ask your opinion for feasible and launched innovations?”

**Annett Karacsonyi:** “Receiving feedback is very important to management. I and the team (the store management) can forward this. Feedback is very important in our corporate culture because it means progress for us.”

Finally, it can be perceived that H&M as a firm pays attention to having a connection between the frontline and the headquarters. This connection allows them to transfer the knowledge mutually. According to the interview, every store sets a meeting with all current employees in the house and

keeps them updated. While the employees are getting updated as a result of meetings, the company stays updated via the feedback from its stores.

## Conclusion

Companies rely on corporate entrepreneurship to diversify their business. It implies investing in other markets, industries, or other investment categories to achieve a higher profitability for the company in the corporate level. However, this process requires a significant level of engagement on data exchange between the business units to launch successful entrepreneurship attempts. And the companies that are able to have established functioning networks gain a sustainable advantage against their competitors.

So far, H&M have had successful entrepreneurial operations which led to new brands in different markets and industries. In this process the network across the corporation played an important role in the success.

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# Corporate Entrepreneurship

*Serena Tahiraga*

## Introduction

In this book chapter, the concept of Corporate Entrepreneurship will be elaborated on, reflected on the specific case of Spanx. Inc company. Spanx is a multi-billion-dollar company, who thrived as a start-up and broke through the worldwide market following innovative and proactive behaviour. Spanx is a tremendously successful company founded in 1998 in Atlanta, Georgia. It is an apparel brand focusing on shaping briefs, leggings, and intimates to make women appear thinner, with a healthier figure, promoting comfort and confidence in them. The founder is Sara Blakely, an inspiring woman with an influential role in the business world, who succeeded without having a primary education related to economy and entrepreneurship. In her words: *"It all started with a pair of pantyhose, some scissors, and a bright idea."* (Spanx, Inc, 2021)

The concept of Corporate Entrepreneurship is a potential growth strategy for businesses, and since innovation is such a critical issue for companies today, corporate entrepreneurship (CE) is being embraced today by executives as more than merely a component of a company's strategy but rather as the focus of an organization's success. (Donald F. Kuratko, Jeffrey Glenn Covin, and Michael H. Morris, 2002)

As the author stated: "Firms that are more adaptable, aggressive, and innovative are better positioned not only to adjust to a dynamic, threatening, and complex external environment but to create change in that environment. They do not take the external environment as a given. Instead, they define themselves as agents of change, leading customers instead of following them, creating new markets, and rewriting the competitive game". (Donald F. Kuratko, Jeffrey Glenn Covin, and Michael H. Morris, 2002)

## *Corporate Entrepreneurship*

Along with many social and economic changes that our world went through in the past centuries, one of the most important approaches that drove a type of change in the way businesses and

economies operate was the shifting from the culture of industrialization<sup>28</sup> to the culture of creativity and innovation.

Over the last four decades, the concept of corporate entrepreneurship went through changes and evolved, and this is why the definitions have varied considerably since the earliest research in the 1970s. Sometimes the term (CE) is interchangeably used with the word Intrapreneurship<sup>29</sup>. As mentioned by Corporate Entrepreneurs, *“It is a mean adopted to generate new businesses, products, services, or processes inside an existing organization to create value and produce new revenue growth through entrepreneurial thinking and action.”* (Corporate Entrepreneurs, 2021)

As stated in the book by Donald F., *“With various definitions taking shape, the 21st century associated CE to firms' efforts to establish sustainable competitive advantages as the foundation for profitable growth. In this regard, Morris, Kuratko, and Covin (2008) described corporate entrepreneurship (CE) as being manifested in companies either through **corporate venturing** or **strategic entrepreneurship**.”* (Donald F. Kuratko, Jeffrey Glenn Covin, and Michael H. Morris, 2002)

**Corporate venturing** is the first major category of corporate entrepreneurship, and it includes various ways of creating, adding to, or investing in new businesses.

Corporate venturing can achieve this through three implementation forms—internal corporate venturing, cooperative corporate venturing, and external corporate venturing. (book pg.132)

**Internal Corporate Venturing:** New businesses are created and retained by the corporation. They can live within the corporate structure or be located outside the firm and serve as a semi-autonomous object. **Cooperative Corporate Venturing, a.k.a Joint Corporate Venturing:** Entrepreneurial Activity in which new businesses are created and owned by the corporation together with one or more external development partners. They usually operate beyond the organizational boundaries of the originating partners.

**External Corporate Venturing:** Entrepreneurial activity in which new businesses are formed by parties outside the corporation and afterward invested in or acquired by the corporation. These

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<sup>28</sup> The period of social and economic change that transforms a human group from an agrarian society into an industrial society.

<sup>29</sup> A system that allows an employee to act like an entrepreneur within a company or other organization.

external businesses are typically very young enterprises or early growth-stage firms. (Donald F. Kuratko, Jeffrey Glenn Covin, and Michael H. Morris, 2002)

**Strategic entrepreneurship** establishes a second important category of approaches to corporate entrepreneurship. While corporate venturing suggests the company's involvement in creating new businesses, strategic entrepreneurship corresponds to a

broadier display of entrepreneurial initiatives, which do not necessarily involve new companies being added to the firm. Strategic entrepreneurship includes unique opportunity- and advantage-seeking behaviours (Ireland et al., 2003).

The innovations that come as a result can draw fundamental changes from the firms' past strategies, products, markets, organization structures, processes, capabilities, or business models. These innovations can represent the total basis on which the firm is fundamentally differentiated from its industry competitors. The latter is a form of approach that can be observed while going through the example of Spanx, Inc. company that is being the highlight. As Hamel (2000) advised, "In these suddenly sober times, the inescapable imperative for every organization must be to make innovation an all-the-time, everywhere capability." (Donald F. Kuratko, Jeffrey Glenn Covin, and Michael H. Morris, 2002)

### *Spanx: Company Case*

A simple question such as: "Why are pantyhose made the way they are made"? Catalysed the rise of the multi-billion-dollar empire that Sara Blakely is in charge of today. Since innovation is a very critical issue for businesses today, we can be certain that many companies like Spanx started up with an innovative idea, and the people responsible for it did not initially see themselves as entrepreneurs. They did not possess a very detailed growth strategy. As mentioned in the section on an article below:

*"Female body ideals and fashion have, for centuries, influenced each other and collectively contributed to define femininity— the features considered to be natural to or characteristic of a woman. One marketplace apparel category, in particular, has materialized this complex relationship: shapewear. Shapewear has developed from the sixteenth century's highly structured corset to the elastic Spanx, the most famous shapewear brand of the 2000s. This product has a strong ability to take on multiple forms and meanings while preserving its function, and this is*

*what transformed it into a marketplace icon. It acts on the body by enhancing or compressing body parts to adjust or defy ideal body shapes favored by beauty, fashion, and gender discourses. As Blakely and devoted users of her brand have it, shapewear is not a tool for compression, submission, and restraint but a tool enabling empowerment, confidence, and self-improvement.*

*Spanx plays a symbolic role that has made the brand synonymous with modern shapewear—a role championed by a product developer and company chief executive Sara Blakely. As the story goes, in the late 1990s, 27-year-old Blakely cut the feet off pantyhose, striving to have no-show underwear she could wear with white pants. She was already a successful salesperson (O'Connor 2012) and moved on to patent and manufacture the product and skilfully generate a business from her creativity. Her breakthrough came in 2000 when Oprah Winfrey included Spanx on her annual list of favourite products. The support from one of America's most loved personalities generated a surge in sales, and the Spanx brand soon skyrocketed to fame.” (Marie Carolina Zanette & Daiane Scaraboto, 2018)*

### *Industry and Market Opportunity*

The economy is not predictable, and many difficulties rose during the recession years, translating into a revenue slowdown. Spanx Company faced much competition, and there were many changes in women's perceptions about their bodies and necessities. Many campaigns after 2007 promoted self-acceptance, negated comparing and seeking the image of the perfect body. Regardless, Spanx remains an ideal example to consider when Corporate Entrepreneurship becomes a subject. This company started up simply with an innovative idea and a really unique and quite old-fashioned advertising and packaging. Sara Blakely, on top of all, served as the ultimate brand enhancement because of her young, energetic figure and her inspiring entrepreneurial talks in shows and discourses. Blakely became the youngest, self-made female billionaire in the United States (O'Connor 2012). Along with her business, Blakely has created a persona that represents female empowerment. (Marie Carolina Zanette & Daiane Scaraboto, 2018)

Reasons why the company resulted successful, starting from an investment of her 5000\$ personal savings in 1998 to a currently estimated 400\$ million annual revenue, are numerous. But certainly, we can tell that Sara Blakely's company rose following strategic entrepreneurship. The sustainable advantage of being a new product for an existing market allowed Spanx to access the whole retail industry. This meant that the market segment that had to be developed for the product could target

every woman in the US since they were willing to enhance their silhouette. A simple value proposition that can shift the perception about a product allowed Spanx to start a domino effect throughout a whole industry. This was done by creating invisible pantyhose under contemporary clothing, combined with slick and colourful packaging. This combination appealed to a younger demographic, who immediately forgot the old perception of shape wears. A popular misconception among entrepreneurs is that it is more important to launch new and emerging businesses rather than revitalize the sagging market. They follow a blind leadership and often continue to manage tired industries, unable to be sensible and spot changes in customer preferences. (Terrigno, 2017)

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# The Data Open: Corporate Entrepreneurship at Citadel

*Sharie Wuttke*

## Welcome to the Datathon

Imagine you made it, you finally got here. Your application was accepted, you passed the test and even found a team to work with. After your long journey you ended up in this beautiful metropolis, in this big hall. Colorful lights shine everywhere, with modern designs and technology wherever you look. Surrounded by hundreds of different people with such a variety, more diverse than you ever imagined. You feel your heart pumping and your adrenaline level rising as soon as you realize that you will spend the next days with all these creative and inspiring people.

Welcome to the datathon! An event where established companies make room for innovation and create an entrepreneurial atmosphere.

But before we jump right into the datathon let us take a step back and look at the wider concept of what this is all about.

As soon as we look into the businesses, we will see a variety of structures which show how the corporations function. Considering different companies some structures might appear repeatedly. It almost seems like there are concepts that build up the foundation to a company's success. Overall, you can consider those concepts as principles of business administration. Principles to understand a company's structure and what makes it successful.

In this Chapter I would like to explain what a datathon has to do with one of those principles and how Citadel is connected to it all.

## The Data Open

### *What is a Datathon?*

The term “datathon” is a combination of the words “Data” and “Marathon”. It describes an event where inspired people assemble and form teams to work on complex problem sets.

There are many different words to describe similar events. Common are “Hack Days”, “Code Days” or “Hackathon”. Those events have a different focus on topics which leads to changes in



the name as well. Additionally, there are no rules that count for every single datathon. There can be a dozen or hundreds of participants.

Datathons usually take up 12 to 48 hours, but the time span, which should be clear before the datathon starts, can also be a lot longer. Attendees team up and work on their ideas, by the end of the event, they present their idea or project. At larger datathons you will find a jury and prizes to be won by the best team. The variety of datathons is incredibly wide, which is why it would be too much to cover the whole topic including its history here.

### *Citadel*

Citadel, or formally known as Citadel Investment Group, is an international financial services company based in Chicago, America. The company was founded in 1990 by Kenneth C. Griffin. According to the company's website Citadel "manages over \$36 billion in capital for its partners" (<https://www.citadel.com/leadership/kenneth-c-griffin/>) and can therefore be considered a successful, well established company.

### *The Data Open*

"The Data Open" is the name of the datathon managed by Citadel. It is hosted multiple times a year across different locations, typically on university campuses.

Once you chose which event you want to join, you can send an application and after that you will have to take a 60-minute assessment test. Now Citadel chooses which attendees they want. If you are accepted, it is time to find yourself a team to work with in the days of the datathon.

Usually, the company is looking for people with special knowledge in mathematics, computer science, or technology to work through a given complex dataset. When the time is over, each team presents their solutions to the judges in front of everyone else at the datathon. The winning team gets a 25 000\$ reward and a job interview at Citadel.

At The Data Open it is common that Citadel provides accommodation, food as well as transportation to and from the location.

### *Advantages of The Data Open*

For sure, a datathon is a lot of effort. As a participant you will have to invest the days of the datathon to completely focus on the problem set given, and as the organizer you will spend a significant amount of time in preparation. Especially at The Data Open, a huge amount of money is involved. So, what makes it all worth it?

Attending The Data Open has many advantages. The first benefit is that the attendees will be able to network with like-minded individuals. Second, the atmosphere will drive the attendees to their best, they will share knowledge and learn from each other. On top of that The Data Open is a great place to get investor's attention.

Finally, there is still the chance of winning the prize money and getting a job interview at such a popular company like Citadel. Despite all those advantages it is not to forget that a datathon can be exhausting and stressful for the attendees, so they should make sure to be properly motivated.

The original idea of datathons is to come together in a group to work on a problem. Even today that is the main purpose to offer a datathon. The attendees work on their ideas and provide them to Citadel. Innovations are born in a noticeably short time which might lead to the next million-dollar invention. If not, the company might still find itself valuable new employees.

### **Corporate Entrepreneurship**

Corporate entrepreneurship is a well known topic nowadays. Hence, there is no one uniform definition. The concept goes by many names, some might call it "intrapreneurship" or "internal corporate venturing".

According to a definition by Burgelman corporate entrepreneurship is "a process of "extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations"" (Ferreira, Corporate Entrepreneurship, P.2).

Said more general, corporate entrepreneurship denotes entrepreneurial behavior from and inside established companies (ct. Kuckertz, 2017, P.4).

## *The Data Open and Corporate Entrepreneurship*

As mentioned before, the main purpose of a datathon like The Data Open is to work on a problem set and to find a solution or ideas for it in a short time. For the days of the datathon the part of the company involved becomes like an own start up. Ideas are being built from the ground up but when it comes to the point where the idea needs to be brought alive, most startups would struggle due to a lack of resources. The benefit of corporate entrepreneurship is that an established company like Citadel will have the resources to provide those ideas and to bring them to life.

In addition to that, targeting new business strategies, teamwork and resource development are key concepts of corporate entrepreneurship as well as The Data Open.

Most participants at the datathon are not employed at Citadel. All the ideas are coming from the outside and lead to proactive behavior inside the company. Those open-minded actions are contradicting to stagnation which might be one of the reasons why Citadel is successful. Being able to adjust to the changes happening in the world is necessary to stay on market. Hence, corporate entrepreneurship with the thought of being a company which develops all the time is part of The Data Open.

## **Conclusion**

Generally speaking, you can find many principles in most companies. They often go hand in hand with each other and cannot be separated because of the big system they are part of.

Unfortunately, the extent of this chapter does not allow me to go deeper into other principles or strategies connected to The Data Open or Citadel.

Nevertheless, I hope that the connection between corporate entrepreneurship and The Data Open became clear. Key concepts of corporate entrepreneurship are adapted in The Data Open and in my opinion that is what it makes it so special.

Of course, this principle does not fit to everyone as well as not to every company. But still, it is absolutely worth taking a deeper look into different business principles and getting inspired by innovative ideas and interesting implementations.

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# Implementation of Corporate Entrepreneurship at Apple Inc.

*Timo Zembold*

## What Is Corporate Entrepreneurship?

A common issue big companies have is that they are not innovating enough and hold on to the same niche in the market. Employees often consider themselves and are being considered by executives as "cogs in a machine" (Müller, 2010), thinking they cannot have a big influence on a potential change, also because of not being motivated to think in other directions. The concept of corporate entrepreneurship aims on changing that problem. The basic principle of corporate entrepreneurship is for the company which does apply it, to innovate like a start-up (Wolcott & Lippitz, 2007). This can be achieved by optimizing leadership, reorganizing internal structures, or encouraging team working, just to mention a few possibilities (Müller, 2010).

Different companies focus on different aspects of the concept, many do not implement all the mentioned aspects but instead focus on a few or go totally different ways. In any way, the overall will to concentrate on innovation and to restructure the company connects all users of corporate entrepreneurship (Müller, 2007).

## Apple Inc.

In 1976 Steve Jobs, Steve Wozniak, and Ronald Wayne founded Apple Inc., a technology company that would soon revolutionize the industry and reshape the world with its products. Out of a garage in California, the three technology enthusiasts started to develop the predecessor of the 1984 published Macintosh, the first mass-consumer computer (O'Grady, 2009). Since then, the company has been growing steadily and bringing new revolutionizing products to the market, like the iPod in 2001 and the iPhone in 2007 (O'Grady, 2009). In 2020 the business magazine *Forbes* ranked Apple Inc. as the most valuable brand worldwide, with a calculated brand value of 352 billion US dollars. As of 2019, Apple Inc. was also ranked under the top 10 innovative companies in the world, calculated by the number of patents granted (Statista, 2020).

## Philosophy and Culture

One could say that Apple's innovation philosophy roughly consists of two parts. The first part is totally new ideas that revolutionize the market and then a whole industry is created around them (Rao, 2016). This was the case for the Macintosh, the iPod, and the iPhone. It is said that Henry Ford once stated (Merrill, n.d., as cited in Müller, 2010): "If I had asked my customers what they wanted they would have said 'faster horses'". Apple implements this approach and focuses on a "technology push" (Müller, 2010) philosophy to only work on and release products with "breakthrough potential" (Heracleous & Papachroni, 2016, as cited in Patel, 2020). The second and maybe more important part is Apple "identifying giant trends at the emerging stage and climbing on them" (Rao, 2016). Therefore, Apple aims on creating the perfect product in this market area (Müller 2010).

## Leadership at Apple

In the past, this culture of creating the best product in the market against all odds was mainly driven by the CEO and co-founder of Apple Inc. Steve Jobs. While he left Apple in 1985 because of internal disputes Jobs re-joined Apple as CEO in 1997 (Patel, 2020), which O'Grady (2009, Preface) states as "the second coming". Jobs then completely reshaped the company, which, in his years of absence, was lacking innovation and leadership (Patel, 2020). He implemented a distinctive corporate culture with features like no needed dress code and little hierarchy within the company (O'Grady, 2009). This was creating a flexible and overall relaxed atmosphere inside the company, making it feel more like a start-up. Besides these relatively minor values, Steve Jobs mainly was a visionary, one like no other since today. With his "obsession with perfection" (Patel, 2020, p. 2) and his highly innovative ideas, he soon became a leader his employees looked up to. Jobs got people excited to work for Apple which helped the company to recruit the most skilled and innovative minds all around the world (Patel, 2020), following the thinking of Trott (2002, p. 78, as cited in Müller, 2010): "*Creative people will be attracted to those companies that themselves are viewed as creative*". Apple knows that having a shared vision is important for a company's success. Therefore, to bring the company forward, employees must "like what the body corporate is going for" (Tidd, et al, p. 133, as cited in Müller, 2010). Steve Jobs' philosophy became Apple's core values and continues to be implemented after his death in 2011. The CEO of Apple today,

Tim Cook, is sticking to many of Jobs' values, even though not being seen as an innovative visionary as Steve Jobs was (Patel, 2020)

## **Motivating Employees**

Besides the major influence of Steve Jobs' philosophies on the employees, Apple also utilizes certain methods to achieve more innovation. The company's internal structure is focused on "communication, open-mindedness and collaboration" (Müller, 2010), which are core values of corporate entrepreneurship. The open communication and little hierarchy motivate the employees to work on their own ideas and to present them to senior executives. Even though Apple encourages most employees to contribute their ideas and leaves them space to think innovatively, it must be noted that this is not the case for every person Apple employs. While Apple really supports their innovative and "proven talents" (Müller, 2010) by not giving them strict directives, other people working at Apple do get close supervision making it a "[clear distinction] between rank-and-file employees" (Müller, 2010). But how are the innovative people encouraged to develop ideas in the first place? Firstly, the formation of small groups allows employees to form a team with people from different areas of the company (marketing, design, production, etc.), which does work like a tiny start-up inside the original company, with a very loose hierarchy and little supervision, nearly perfectly implementing one of the core principles of corporate entrepreneurship (Patel, 2020). Inside this team, great ideas still must be thought about, so to achieve that, Apple allows for different and unusual methods to be used: Listening to music while working, for example, to increase creativity (Müller, 2010). Other than that, some groups are also working behind "unmarked and restricted doors" (Müller 2010), which should increase their creativity and prevent that internal work pressure bothers the team (Müller, 2010). When having developed an idea, which has "breakthrough potential" (Heracleous & Papachroni, 2016, as cited in Patel, 2020), the team reaches out to executives to present their idea.

Overall, one can state that combining the open culture and great internal communication with the formation of small teams working on an innovative project intensively, really creates the structure around the innovative culture at Apple Inc.



## Contribution to Success

The principle of focussing on technology with "breakthrough potential" (Heracleous & Papachroni, 2016, as cited in Patel, 2020) and leaving other old technologies behind was mainly driven and established by one person: Steve Jobs. His values have been motivating employees ever since, making everyone excited to work for Apple. The company implements many concepts to nurture the creativity of employees and to "make them go crazy" (Morrison, 2009, as cited in Müller, 2010), which are a part of the main goals of corporate entrepreneurship. But the focus at Apple Inc. is leadership, which was embodied by Steve Jobs. With the innovative concepts he contributed to Apple, he influenced the company like no other, and some articles even state that Apple's whole success story can be traced back to Steve Jobs (Umoh, 2017). This is one way to implement corporate entrepreneurship and Apple perfectionated this approach.

The question to ask today is, whether Tim Cook can sustain the innovative culture that Steve Jobs created around the company or if it will fade away after some time. Critiques say that Apple does not innovate enough anymore, and the breakthrough and market revolutionizing product has been missing since the introduction of the iPhone (Patel, 2010).

## Conclusion

To conclude, Apple's success is "not luck" (Quinn, 2010, as cited in Müller, 2010), Apple rather implements the concept of corporate entrepreneurship. It focusses on visionary leadership with the former CEO Steve Jobs whose innovative concepts resulted in a major success, making Apple the most valuable brand in the world. Adding to that, Apple utilizes ways of elevating its employees' creativity and giving them a free hand while keeping small, formed teams connected to the company. Therefore, one can say that the contribution of corporate entrepreneurship to the success of Apple Inc. has been significant, due to a large amount of motivation for employees resulting in great innovation inside the company.

Considering the high expectations Apple has towards its employees, a critical perspective towards Apple could be the constant pressure on employees to perform and to innovate. Additional working hours are expected and those could influence the physical and mental health of employees.

It is also up for discussion how the Covid-19 pandemic influences Apple's innovative processes. Due to the increasing implementation of working from home, people might not get in personal

contact as easily as before. The whole process of innovative and mainly collaborative thinking can be negatively influenced by the pandemic.

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## **V. Institutional Theory**



# **The Concept of Institutional Theory after Paul J. DiMaggio and Walter W. Powell on the Example of Einhorn Products GmbH**

*Lena Eggers*

## **The Start-up**

### *Einhorn Products GmbH*

Einhorn products GmbH was founded in 2015 by Philip Siefer and Waldemar Zeiler, who both had previously worked in digital startups. The basis for the Berlin-based startup was laid with a crowdfunding campaign via the Startnext platform. The collected money was used to finance, among other things, the establishment of a cooperative for sustainable rubber cultivation (Zeiler, 2015).

Initially, Einhorn sold mainly fair and sustainably produced condoms. In addition, consulting services such as keynotes, TED Talks and more are offered. In March 2019, the product range was expanded to include menstrual products. The focus of Einhorn's marketing lies on online marketing. The brand's website not only features the online store, but also a blog, a YouTube channel with its own short web series, and a lot of information about the startup and its Fairstainability approach. The company uses marketing through storytelling. The consumer can follow all the steps of the "world-saving actions" on the website. This not only supports the transparency claim with which the company advertises, but also the image of the Einhorn brand benefits from it (<https://einhorn.my>).

Internally, many modern structures can be found in the startup. There has been a so-called New Pay salary system in place since 2016, where employees have a say in deciding their salary. Articles on the creation of the system and updates are accessible on the blog. There are also unlimited vacation days, flexible working hours and, according to a blog post, no hierarchy in the company (Naranjo, 2016).

The founders describe their company as a social startup and regularly emphasize that Einhorn is a responsible and fair company (StartGreen, n.d.). Their goal is to create a flagship project with Einhorn that proves being sustainable, fair and economically successful is possible. To realize this goal, the company relies on various approaches. These are presented in the following.

### *Entrepreneur's Pledge*

Entrepreneur's Pledge is an association established by the founders of Einhorn, whose members commit to founding at least one social enterprise. In addition, members must agree to invest half of the profits that are generated by the company in social and ecological projects. Through the return of investment this pledge has a direct influence on the economy.

The goal of the Entrepreneur's Pledge is to generate a movement. Like-minded entrepreneurs should be gathered together to create lasting change in the economy. It should also act as an example for other entrepreneurs. The pledge also creates a target group of companies for the consulting services offered by Einhorn. Thus, the company also benefits from the Pledge. To date, over 100 entrepreneurs have signed the Entrepreneur's Pledge. (Entrepreneur's Pledge, n.d.)

### *Fairstainability*

Einhorn was founded with the vision that a company can be economically successful and act in a way that is both ecologically and socially fair. This self-imposed responsibility is summarized under the neologism Fairstainability which is composed of the words fair and sustainability and is intended to summarize the two key points of this responsible action: The fair working conditions for all those involved in Einhorn products, as well as the responsibility towards the environment. Therefore, 50% of the profits go into so-called Fairstainability work. The company's approach is not to contribute to the problems, but to help solve them.

In order to implement their Fairstainability goal, the entire supply chain of an Einhorn product is analyzed and tried to be improved. Every single process stage of the products is presented as transparent as possible and can be viewed and traced on the website. In addition, the current challenges, such as long transport routes or unfavorable shipping conditions, are explained for each individual step. Everything that has changed or improved within a year is published in the Fairstainability Report. The distribution and amount of reinvestment can also be accessed there (Einhorn products GmbH, n.d.).

With all the positive aspects created by the investment in Fairstainability work, however, it should not be forgotten that Einhorn sets the criteria for the sustainability work itself. There are no official requirements, so the company can be sure that everything it does in this regard can be perceived

as good. After all, it is a business enterprise that seeks to be profitable. This should also be taken into account with all the acts of charity.

### *Steward-ownership*

Einhorn became a Purpose company in December 2019. Purpose is an organization that helps companies implement steward-ownership which is an approach for companies to remain independent and act in a purpose-driven way. Steward-owned companies sign a so-called Purpose shareholder agreement and thus share the voting rights among all active entrepreneurs. This means that it is not absentee owners who have control, as is common in many other companies, but the people who have direct contact with the company. This should mean that the actions taken by the employees should be justified to their conscience, and the value of social responsibility is prioritized over maximizing profits.

The second principle of steward-ownership is that corporate profits should no longer be ends in themselves. In other words, they should be invested in meaningful projects. At Einhorn, half of the profits go into so-called Fairstainability work. The goal behind this is a sustainable change in the economy. Purpose has supported Einhorn in this change and holds shares in the company and has a veto right that is intended to ensure independence.

In the case of Einhorn, the “Purpose shareholder agreement” also stipulates that Einhorn can no longer be sold. Shares in the company cannot be inherited and the company's profits cannot be drawn from the company by the founders or anyone else (Purpose, n.d.; Purpose 2019).

## **The Theory**

### *Institutional Theory*

Institutional Theory is a concept that states that companies are influenced by external pressures. The institutional environment changes certain formal structures within a company. Similar companies are exposed to comparable external influences and therefore adopt comparative structures. The main influences acting on firms can be traced back to three so-called isomorphic pressures. Coercive pressures are adaptations due to law or regulation. Mimetic pressures describe copying strategies of successful competitors and normative pressures are changes due to growing professionalism. DiMaggio and Powell (1983) define isomorphism as "a constraining process that



forces one unit in a population to resemble other units that face the same set of environmental conditions." Hence, institutional theory explains the increasing homogeneity of organizational structures in an institutional environment.

### *Institutional Theory and Einhorn Products GmbH*

Some of the foundations of Institutional Theory can be found at Einhorn as it is a company that proactively implements sustainability as one of the company values. It is emphasized that Einhorn should remain independent so that this company value can be realized (Purpose, n.d.). Waldemar Zeiler and Philip Siefer founded the company with the vision of combining economic success and sustainability. With their company, they want to create a blueprint for other businesses. Thus, according to their own statement, they want to fundamentally change the economy. The second isomorphic pressure, the mimetic pressure, is applicable to this. According to Zeiler and Siefer, Einhorn would be that company, which serves as an example for others. Therefore, the behavior of Einhorn should be copied in order to change the economy. Whether this goal is feasible, and the number of companies adopting similar behavior, cannot yet be determined with certainty. The tendency is positive with the success of the Entrepreneur's Pledge also pointing in this direction. However, a clear statement cannot be made until the next few years, as the company was founded only five years ago.

The change of the economy towards sustainability is also promoted by social pressure, as the awareness of the necessity in society and thus the demand of sustainable products increases. There are also coercive pressures from government resolutions, such as the carbon tax in Germany, that require companies to act more sustainably. Einhorn benefits from these changes by offering consulting services to other companies, which encourages them to adapt Einhorn's management strategy (Einhorn products GmbH, n.d.). The Entrepreneur's Pledge also contributes to this, as it requires companies to behave in a similar way as Einhorn, giving 50% of their profits to social and environmental causes (Entrepreneur's Pledge, n.d.)

So, in summary, with Einhorn, Institutional Theory is applied in the sense that the change in the economy desired by the founders is to be realized by exert mimetic pressures.

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# **Sustainable Banking: A Start-up Tries to Gain Moral Legitimacy**

*Philemon Flachsmeyer*

## **Introduction**

Today, rapid developments, globalization, and massively changing markets, as well as increasing demand for sustainability in the economy, can be seen in the world. Equally, the concept of legitimacy becomes more critical for entrepreneurs and managers. In the following paragraphs, I will explain the concept of moral societal legitimacy will. For this, I will present a case study, the theoretical idea of this concept, and how the chosen company tries to follow this theory. I acquired the information needed for describing the company from various newspaper articles, podcasts, videos, and the company's website. Most of the shown numbers and figures were found in an investment brochure that was published for a crowdfunding 2020, and is available on their website.

## **The Idea, History, and Key Values of the Case Study**

Along with many other sectors in our economy, the bank-market is undergoing significant changes as well. This development does not only affect established companies but also brings some new ones to the surface, mainly online banks like N26. One of these new and digital banks is "Tomorrow", located in Hamburg, Germany. It distinguishes itself from other competitors on the market by claiming to be the first not only digital but also sustainable bank. The company was founded in 2018 by three men who had a background in entrepreneurship and creating social businesses but no experience in the banking sector. Today, it has about 50 employees. As they often tell, their initial vision behind Tomorrow was to "change a system that is working against the future" and inform ordinary people about the impact their money has while being stored on a bank-account. They officially launched their app and first charge-free checking account in 2019. The next year, they offered a second checking account with implemented CO<sub>2</sub>-compensation and had an increasing number of customers (about 40,000 at the end of 2020). The latest notable step they made was a crowdfunding campaign in October 2020, resulting in three Million euros given by private investors. As concrete targets, they want to get to one million customers within the next five years and reach the point where they have a positive yield for the first time - in their whole company-history, they have earned only 0.222 Million euros while spending nearly 8 Million. To get there, they plan on offering new investment-opportunities, but also insurances, credits, and

other partnership-programs. “Tomorrow” claims to have three key-targets for their work defining how they operate: Their first and preeminently promoted aim is (ecological) sustainability. Banks can invest the money given to them by the customers, via deposits or investments, in different companies or projects. “Tomorrow” has created a dedicated process to select these businesses. Requirements are, for example, that the chosen project has a positive impact following the 17 SDGs defined by the UN. Only if this procedure is run successfully, the investments are tested regarding economic aspects. Measuring the second key-target, a user-friendly-experience, is more challenging. Nevertheless, facts like that more than half of their employees are working in the IT and the support-team indicate notable effort in this area. With features like monthly “impact reports”, published numbers about users and sales and a blog where planned developments are presented and discussed, they show their approach to promote Transparency. It is their third claimed key-target and makes decisions made by the management more comprehensible.

### **What Is Moral Legitimacy, and How can an Organization Gain it?**

A business organization receives societal legitimacy in an economic context itself, and its activities are socially accepted by its environment (Scherer et al., 2013, p. 260). This acceptance is based on the subjective judgment of the stakeholder (Díez-De-Castro & Peris-Ortiz, 2018, p. 5), which, again, is rooted in a “socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). Even though legitimacy “only exists in the eye of its beholder” (Zimmerman & Zeitz, 2002, p. 416), it is an economic resource (Ashforth & Gibbs, 1990, p. 177) that is vital for organizations because it affects how people understand and act towards them (Suchman, 1995, p. 575). Although there are various approaches to distinguish between different categories of organizational legitimacy (Deephouse & Suchman, 2008, pp. 52–53), a common way is the concept of *pragmatic*, *cognitive*, and *moral legitimacy* (Suchman, 1995, p. 577).

As said at the beginning, the focus will be on moral legitimacy, which is also described as *normative* or *ethical* legitimacy (Díez-De-Castro & Peris-Ortiz, 2018, pp. 11–12). Even though moral legitimacy, in general, goes beyond only doing no harm or following the laws (Díez-De-Castro & Peris-Ortiz, 2018, p. 11), we can distinguish between companies being pioneers in a particular area (Suchman, 1995, p. 586) or “only” mimicking the behavior of other organizations (Pollach, 2015, p. 3). As Suchman describes, an organization can therefore have 1) consequential legitimacy by producing some product judged as qualitative and valuable, 2) procedural legitimacy

by applying specific values to their techniques and procedures, 3) structural legitimacy by displaying reliability and progress into its structure of work and 4) personal legitimacy by hiring leaders and employees that are associated with specific values (Suchman, 1995, pp. 581–582). But how can a company get there? Especially in our globalized world and in the context of sustainability, there are mainly three different strategies (Scherer et al., 2013, pp. 263–264): Firstly, when using *isomorphic adaptation*, an organization changes itself to meet the interests and demands of their specific group of stakeholders. This transformation can be regarding its process of production, company-structure, or products sold. Secondly, with *strategic manipulation*, it tries to influence and change by advertising, lobbying, or misinformation the social expectations the public has about it. Thirdly, by using the strategy of *moral reasoning*, the company and its stakeholders try to find a common solution and learn from each other by engaging in an open discourse where they present and discuss their positions and values. Furthermore, he explains that “corporations are confronted with a multitude of expectations” (Scherer et al., 2013, p. 265) from different groups of interests. Therefore using a paradox approach, which means that organizations should follow all three of these strategies, even if they partially contradict themselves, is the most successful way to maintain and gain moral legitimacy (Scherer et al., 2013, p. 275).

### **How “Tomorrow” Meets the Aspects of Moral Legitimacy**

Moral legitimacy focusing on sustainable development is more important than ever because it becomes “a taken for granted assumption of western societies that corporations invest in green management” (Scherer et al., 2013, p. 278). Especially for new companies, legitimacy is vital (Zimmerman & Zeitz, 2002, p. 428) and increases their survival chance (Deephouse & Suchman, 2008, pp. 58–59). “Tomorrow” is an example of an organization that seeks active support by showing that it can give some value to society (Suchman, 1995, p. 575). Instead of just becoming a part of a homogeneous organization-environment, they want to display their uniqueness and look for reputation (Pollach, 2015, pp. 4–5). Therefore the company invests a substantial amount of effort in the area of sector building to gain legitimacy (Suchman, 1995, p. 586). Following this approach of gaining legitimacy, the start-up meets the idea of consequential legitimacy in general by spending, next to more symbolic steps like offering a credit card made out of wood, much effort to make sure and prove that their accounts are really (ecologically) sustainable. By making their processes through regular blog-entries as transparent as possible and clearly defining the aims of

their acting, procedural legitimacy can be recognized. With referring to international established values like the 17 SDGs from the United Nations or the certification as a B-corporation, they do not only signal legitimacy in the broader environment with other organizations (Pollach, 2015, p. 3) but also fit roughly into the category of structural legitimacy. Finally, by focusing their advertisement much on their founders, which are due to previous achievements already known as successful social entrepreneurs, the aspect of personal legitimacy is met as well. The devotion of a lot of their energy in advertisement and promotion, in general, shows that they are on their way beyond classical forms of influencing but tending more towards “promulgating novel legitimacy claims” (Suchman, 1995, p. 591). This advertisement-strategy can then be assigned toward the form of strategic manipulation as well. By informing society about the impact of money and banks, they try to raise ecological and moral concerns regarding other established companies and try to change its attitude towards them. At this early stage of their company history, isomorphic adaption does not seem to be urgent. However, they already have shown their willingness to change in different areas and adapt to their customers’ demands and values, for example, by implementing Google Pay, although they first did not intend to do so. In addition, the strategy of moral reasoning as a proactive rather than a retreat strategy (Scherer et al., 2013, p. 267), which in general is becoming more important in recent years (Scherer et al., 2013, p. 278), can be seen by a digital platform called “Maschinenraum” where the company informs about their plans and stakeholders can comment on and discuss them. Overall, one can claim that “Tomorrow” meets in many different areas and ways the concept of moral legitimacy and therefore can be considered following the paradox approach. They are using tools out of both, substantive and symbolic management (Ashforth & Gibbs, 1990, pp. 178–186), but also recognize, due to market research (Suchman, 1995, p. 589), that legitimacy is never given by everyone but that they have to focus on a specific group of stakeholders (Díez-De-Castro & Peris-Ortiz, 2018, p. 5).

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# How Institutional Theory is Implemented in HARIBO's Concept of Corporate Responsibility

*Johanna Müller*

## Institutional Theory

Institutional Theory is used in sociology and organizational studies as well as in economic studies. Particularly, organizational studies are characterized by Paul DiMaggio and Walter W. Powell (Berthod, 2016).

In the following chapter, it will be explained and analyzed, how Institutional Theory characterizes the behavior of companies within their organizational fields, using the example of HARIBO. In organizational studies, the theory focuses on the questions, why organizations change, and why they become alike within their organizational fields over time, despite large variety of concepts, strategies and professionalization exist (Burton et al., 2018).

Institutions are defined as taken-for-granted beliefs, rules, and norms shaping social and organizational behavior. They respond to legitimated and institutional pressure coming from outside. To add, institutions are considered to gain legitimacy, decrease uncertainty, and increase intelligibility of organizational actions and decisions in organizational fields, but must not be efficient or profitable for organizations (DiMaggio & Powell, 1983).

Thereby, institutional pressure can be shown in three different pillars. One is the regulative pillar. It represents social institutions, that create a specific environment where formal laws and regulations do influence organizational behavior. The second is the normative pillar, which is enforced by organizational and industrial senses of what is appropriate. At least, the cognitive pillar includes taken-for-granted beliefs and the individual and societal expectations towards organizations (DiMaggio & Powell, 1983). Generally, institutions arise and change with time because of social, organizational, political changes. That leads to organizational changes as well, to remain positions of organizations withing the market (Berthod, 2016).

Thereby, the term 'legitimacy' refers to the right to exist and to perform a specific activity in a specific way in a specific field (DiMaggio & Powell, 1983). Gaining cognitive and moral legitimacy is important for organizations to overcome uncertainties, market insecurities and will

increase organizational chances of surviving market changes. Furthermore, increasing legitimacy results in better reputation within society (Guy Peters, 2000).

It has been observed that over time organizations in a field become more homogeneous. This process is called ‘Isomorphism’ (DiMaggio & Powell, 1983). It develops due to ‘constraining processes that forces one unit in population to resemble other units that face the same set of environmental conditions and organizational characteristics have to be compatible to environment characteristics.’ (DiMaggio & Powell, p.149, 1983)

Institutional isomorphism includes legitimacy among organizations, implemented institutions, and organizational strategies. It can be differentiated between three mechanisms of institutional isomorphism (DiMaggio & Powell, 1983).

Firstly, coercive isomorphism, it bases on the fact, that organizations of the same or similar field are dependent on similar external pressure as suppliers, laws, or institutions. Secondly, mimetic isomorphism, it will occur if uncertainties, poor understandings of technology, or ambiguous goals within an organization exist. This encourages the adaption of successful strategies of other organizations. And thirdly, normative isomorphism, it is a result of increased professionalization inside an organization. Because higher professionalization creates wide ranging inter-organizational networks, where knowledge is extended and exchanged (DiMaggio & Powell 1983).

Indeed, Institutional Theory is unable to explain every phenomenon that occurs within isomorphism or legitimacy. Therefore, it is important to consider other societal or organizational theories and concepts as well (Guy Peters 2000).

## **HARIBO and its Concept of Corporate Responsibility**

HARIBO is a German family-owned organization, that is known for producing fruit-gummy-bears on 26 different locations globally. It was established in 1920 by Hans Riedel from Bonn (ZDFzeit, 2018). Today, it is successfully lead by Hans Guido Riedel, a third-generation family member, and it is still completely independent from any kind of investors (HARIBO, 2020).

HARIBO follows its own ‘corporate responsibility concept’ (HARIBO-CR, 2020). The concept is based on the idea, that through sustainable economy an intact environment can be created in which society and employees can depend on.

In the center of the CR-concept HARIBO's values are presented. These are for instance, investor's independency, focus on fruit gum, trust in its employees and cooperation partners, pragmatism, pride of its own history, childish joy, and attention towards its consumers (HARIBO-CR-Werte, 2020).

Most important for HARIBO is 'primarily quality'. It focuses on the thrive towards providing the customer with the best quality possible (HARIBO-CR, 2020). Additionally, employees, society, sustainability, and management are implemented in the concept (HARIBO-CR-Mitarbeiter, 2020).

HARIBO creates jobs for 7000 employees globally with different professionals. Guaranteeing job conservation, fair payment, labor safety, and security, as well as the ability for further-education are reasons for being an attractive employer (ZDFzeit, 2018).

Moreover, HARIBO sees itself as an active part of the society. It supports local community events, smaller organizations and provides further education of its employees. This and a direct exchange with its employees and customers make it easier for HARIBO to go along with social changes, institutions, and environmental, social, and organizational-political expectations (HARIBO-CR-Gesellschaft, 2020).

### *How Institutional Theory is Implemented in the Corporate Responsibility Concept of HARIBO*

Institutional Theory occupies with the fact, that organizations of the same or a similar field become more alike (DiMaggio & Powell, 1983). External pressure is one reason for this phenomenon, since organizations as HARIBO must respond to them. As mentioned, institutions do play a role within organizations as well, since they can gain legitimacy towards products, activities, and acceptance within society.

In the Corporate Responsibility-concept of HARIBO institutions are formally implemented through its values. What HARIBO is aware of, are additional institutions, which are not explicitly written down (HARIBO-CR, 2020).

As the leading organization of fruit-gum production, HARIBO is a role model for other organizations in its field. However, HARIBO must gain legitimacy and face the mechanisms of

isomorphism as all other organizations on the economic market, since the field of fruit-gum expands into the field of food production, which HARIBO is part of (HARIBO-CR, 2020).

If the expanded field introduces new laws or regulations, coercive isomorphism is a concern HARIBO's. The company must adopt and follow these laws and regulations over long-term. Otherwise, HARIBO might be unable to keep competing on the open market and would lose its legitimacy. For example, as new regulations concerning the packaging of food were introduced, HARIBO has responded to these through the adoption of the 'SMETA-standards' in its production processes. Additionally, it has implemented new regulations in the CR-concept to keep its legitimacy (HARIBO-CR, 2020).

Mimetic process will occur in HARIBO, if new products are introduced on the market. New products always constitute an uncertainty since no one can say how the market and consumers might react towards them. To be prepared if any product fails, the CR-concept implements the aspect of 'employee', that ensures jobs and a stable labor environment for its employees (HARIBO-CR-Mitarbeiter, 2020).

In HARIBO, normative isomorphism partly occurs in production or management processes since a company tries to be as efficient as possible. It can be observed, that HARIBO responds quickly to changes in its environment. Whilst it tries to implement new expectations and societal institutions coming from society, it orientates itself towards other successful organizations and its own history and implements their strategies and become more alike among the field.

Still, one advantage that HARIBO has, are its 100 years of history (HARIBO-Geschichte, 2020). Through those and since long traditions, its appearance in its domain is quite unique and society trusts HARIBO. Generally, other organizations within the field orientate themselves towards HARIBO and implement and imitate its strategies and concepts.

To conclude, it can be seen, principles of Institutional Theory are implemented well in HARIBO'S Corporate Responsibility concept. That means, whenever new institutions or changes arise, HARIBO can respond to them and have not to face the fear of failure that fast, as organizations that ignore the importance of social institutions in their concepts. Furthermore, this leads to a stable labor environment for HARIBO's employees, and a good reputation within society.

And finally, that is why HARIBO still stays legitimated within its organizational field while social changes occur.

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# **The Institutional Theory and its Application to the Institution Process of Women's Entrepreneurship in Rural Bangladesh**

*Anna Julie Marie Rabus*

## **Introduction**

In the institutional theory social, economic and political research is combined. The theory addresses the question of how organizations and social decisions are shaped, mediated and channeled by institutional arrangements (DiMaggio & Powell, 1991). This institutional influence leads to a resemblance of organizational structures.

## **Institutions and Institutionalization**

The term institution is abstract and used differently in fields of study. They can be defined as regular and repetitive interactions, as well as rules that provide incentives and disincentives for individuals (North, 1986). Meyer and Rowan emphasize that institutions inevitably entail normative obligations. Furthermore, they have an unnoticed effect on the actions of actors in a specific environment (Meyer & Rowan, 1977). Zucker adds that institutions generate meaning and show which actions are possible (Zucker, 1983). In organization theory, the focus is primarily on the analysis of organizational structures and processes. Institutional elements can be defined as structures, including schemes, rules, norms and routines, which provide guidelines for social behavior (Scott, 2005). Scholars in this research field investigate how these elements were created, distributed, adapted, established. Part of their analysis is also how these elements dissolve and lose their relevance.

One could say that Institutionalization is process by which certain elements and actions come to be taken for granted. Furthermore, it refers to a process and a state in which behavior and values are typified and standardized. This leads to the fact that enterprises in an organizational field resemble each other since they adopt institutional elements.

## **Organizations and Organizational Field**

Organizations are generally understood as systems of coordinated and controlled activities, which are embedded in complex relationships and boundary-spanning exchange (Meyer & Rowan,



1991). Being highly institutionalized, in order to exist in a certain environment, companies adopt practices and procedures, which were defined by prevailing organizational work and thus are considered institutionalized in society. Institutionalized techniques, products, and programs function as myths and are thus adopted unquestioningly by many organizations because they make internal activities easier to coordinate and control. In this context, they can acquire legitimacy and thus defend their position (Meyer & Rowan, 1991).

Organizations can be considered as environmentally open systems since they adapt their formal structures through interaction with their environment. They are placed into an organizational field by which is meant "set of organizations that, in the aggregate, constitute a recognized area of institutional life; key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products" (DiMaggio & Powell, 1991 p. 64).

### **The Three Pillars of Institutions: Women's Entrepreneurship in Rural Bangladesh**

Significant components of institutions are regulative, normative and cognitive systems. These three pillars invent or support institutions. Throughout this subchapter, reference is made to the 1995 work "Institutions and Organizations" by W. Richard Scott. In the following, each of the pillars will be explained and supported by the example of women's entrepreneurship in Bangladesh. This example is used since women are highly underrepresented in entrepreneurship, especially in the global south. Based on the three institutional systems it can be analyzed what factors inhibit or enhance women's entrepreneurship.

The first pillar, the regulative pillar, refers to explicit regulative processes such as rule-setting or sanctioning activities that influence future behavior through reward or punishment. These rules can be formal, such as laws, but also informal rules determined by society. One could say that regulatory structures are necessary in a competitive environment to ensure a stable order. In Bangladesh, Article 38 of the Constitution assures equal rights for women, Article 28 supports that in all spheres of life, and Article 19 addresses the elimination of social and economic gender inequalities. It is visible that the state acts here as a rule maker and thus determines laws that influence social coexistence. Before these laws were adopted, it was more difficult for women to

become an entrepreneur. These are regulatory elements that are supposed to support female entrepreneurship (Nawaz, 2009).

Companies or the behavior of individuals who do not comply with the regulatory rules lose their legitimacy in their environment. Therefore, companies usually adapt to these rules, which leads to a similarity that is created by coercion. This mechanism of isomorphism is called the coercive mechanism (DiMaggio & Powell, 1991).

The normative pillar of institutions refers to a prescriptive, evaluative and obligatory dimension of social life. In this context, values and norms play a central role, since they prescribe desired behavior and show how something should be done. These factors lead to certain roles that can be applied to individuals or groups, creating external pressure. In rural areas of Bangladesh, the emancipatory movement is not yet strong, social customs and religious barriers restrict entrepreneurial space. The role of women is still seen in domestic work, which inhibits entrepreneurship because it goes against the values and norms of the local society (Nawaz, 2009). Normative systems are additionally a reason for isomorphism. Values and norms, for example, influence the selection of personnel in companies, which can lead to homogeneity. This mechanism is called the normative mechanism (DiMaggio & Powell, 1991).

The cognitive pillar refers to the frames, whereby meaning is created. Meanings are assigned to symbols, which ultimately determine the meaning of objects and activities that provide guidance and orientation. The cognitive pillar thus refers to symbolic aspects of social life. The idea results that there are "socially conducted players, endowed with differing capacities for action and parts to play" (Scott, 1995, p. 42). Individual behavior is often adapted to external definitions and ultimately internalized. In the cognitive framework, social identities emerge that provide an idea of who someone is and what actions are appropriate in the particular situation. This social construction also determines what individual groups or individuals perceive as their interests. For example, it is unusual for women in Bangladesh to be interested in entrepreneurship. As a result, there are fewer women who actively engage in entrepreneurship or become active themselves. As a result, women are unlikely to train economically. For example, there is a lack of necessary knowledge in accounting, cost and profit estimation, and price determination (Hossain & Rahman, 1999). The lack of basic education, knowledge, training, and experience is a major obstacle to female entrepreneurship in Bangladesh.

The cognitive pillar can be connected to the mimetic mechanism of isomorphism (DiMaggio & Powell, 1991), since belief systems and cultural frames can be adopted by organizations. Organizations adapt to cultural patterns in their environment because they promise legitimacy. This leads to companies resembling each other in organizational fields because a mimetic process has taken place.

## Conclusion

Organizations working in the same organizational field are influenced by institutional elements. Institutions involve regulative processes, normative rules, and cognitive constructions. Because systems reinforce institutions, social behavior is influenced. This leads to a certain isomorphism in many respects. There are three institutional pillars that promote or prevent change. This was shown with the example of women's entrepreneurship in rural Bangladesh. This example shows that institutional theory can be used to identify unconscious factors that influence entrepreneurs and enterprises.

In summary, institutional theory promises an analytical approach to organizational structures through which many facets of organizations and their environments can be revealed, being of great importance to the field of entrepreneurship.

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# Institutional Theory in the Development of RWE

*Alina Tügel*

## Introduction

In the following, Institutional Theory will be applied to the development of the energy provider RWE within the last ten years.

The data used to analyse the company's structure derives from the company's website ([www.rwe.com](http://www.rwe.com)). All additional data is taken from a variety of news resources ([www.tagesschau.de](http://www.tagesschau.de); [www.spiegel.de](http://www.spiegel.de); [www.zeit.de](http://www.zeit.de); [www.handelsblatt.de](http://www.handelsblatt.de)).

## Institutional Theory

### *What is an Institution?*

There are multiple different definitions for what an institution could be and how broad the term should be seen in organisational studies. In Institutional Theory the existing definitions and papers can be divided into the two main schools of thought.

### Old Institutionalism

The roots of Institutional Theory lie in the 1950s, when Parsons first included a “cultural-institutional” point of view in his works (Parsons, 1956). Parsons (1956) and Selznick (1957) formed the basis for later approaches, but since those works can be seen as obsolete, only new institutionalism will be considered in this chapter.

### New Institutionalism

Since the 1970s, a new approach has risen. Meyer and Rowan (1977) stated that formal structures of an organisation can hold cultural values that are shaped by external institutions. Thus, these structures can cause adjustments in the company to gain social acceptance and therefore ensure the company's survival. Scott (1995) then identified three categories of institutions, regulatory (laws), cultural-cognitive (shared beliefs) and normative (certification).

However, the uniting aspect of old and new institutionalism is the focus on external pressures on a company's decision-making, instead of efficiency and quality of output (David et al., 2019). These external pressures can then lead to isomorphism, the assimilation of two companies that are affected by similar external pressures (DiMaggio & Powell, 1983).

### *Types of Pressures*

DiMaggio and Powell found three categories of pressures, coercive pressure, mimetic pressure and normative pressure which will be considered as the basis for the analysis in the RWE case in this chapter (DiMaggio & Powell, 1983). Despite using these categories to get a structured overview over the external influences on a company, they can not be clearly distinguished in a real world scenario as they influence each other (David et al., 2019).

According to DiMaggio and Powell, coercive isomorphism as the first of the three mechanisms describes the result of formal or informal pressures from the government, other companies or cultural expectations on which the respective company is dependent on.

Mimetic isomorphism is rooted in the response of other companies in the field to a certain external change which then leads to the imitation of those companies. Reasons may be obscure goals, insecurity about new technologies or uncertainty about decisions.

Normative isomorphism summarizes all pressures caused by professionalization, which can be the influence of professional communities or standards on the company. This may cause a particular choice of staff or a certain specialisation of the company.

## **The Case of RWE**

### *The Company and its Structure*

The energy company RWE was founded in Essen in 1898 as “Rheinisch-Westfälisches Elektrizitätswerk“, and has since evolved into an energy provider with around 20,000 employees all over the world (website).

The RWE AG is currently divided into four main corporations. On the one hand, there are the parts responsible for traditional energy generation, namely the RWE Generation SE (gas, hard coal, hydro and biomass) and the RWE Power AG (lignite and nuclear energy). On the other hand, there

is the RWE Renewables GmbH which focuses on renewable energy sources. The RWE Supply & Trading GmbH is in charge of procurement, trading, energy-related financial services, and private equity investments (website).

### *Pressures on RWE*

#### **Legal Regulations**

In RWE's development, coercive pressure is explicitly identifiable in the laws that were passed since 2011 regarding the environment and energy sources.

After the Fukushima nuclear disaster in 2011, the German government decided to change the Atomic Energy Act (2011) and gradually shut down all nuclear power plants by 2022. This led to a sharp drop in power wholesale prices and RWE share prices. The company has been facing a financial crisis ever since, resulting in the announcement of job cuts, the sale of the subsidiary RWE DEA in 2014. The RWE share prices reached their lowest in September 2015, shortly before the Paris Agreement (United Nations, 2015). To implement the agreement's aims, the German government passed the Climate Action Plan 2050 (2016), including certain goals for the energy industry. Thus, RWE had to rethink their structure as its main revenue stream, energy generation using coal and nuclear energy, had to be significantly cut.

#### **Hambach Forest Protests**

Besides the pressure by various environmental organisations like Greenpeace or the "BUND" (Association for the Environment and Nature Conservation Germany), RWE had to deal with a mass protest movement against deforestation near their lignite mine in the Rhenish lignite mining region in 2018 (Spiegel).

This situation is an example of a combination of pressures that influence each other. The coercive pressure caused by mass protests with up to 50,000 participants (Zeit) was strongly influenced by the high media recognition. The German news "Tagesschau" solely offers 118 results for "Hambacher Forst" on their website (23.01.2021). The additional legal regulations that were discussed in the commission "Growth, Structural Change and Employment" in 2018 and passed in 2020 (BGBI. I S. 1818) led to a pressure to act for RWE. They had to comply with legal



requirements on the one hand, and to make sure their reputation is not significantly damaged whilst dealing with a financial crisis on the other hand.

In early 2019, RWE agreed to postpone the deforestation. A year later, RWE stated the company had decided to retain the forest (Tagesschau). Due to the 2020 Coal Phase-Out Act, RWE shut down the first lignite-fired power plant on 1st January 2021 (Tagesschau).

### **Structural Changes**

In 2012, the former CEO Jürgen Großmann was replaced by Peter Terium (Handelsblatt). This was said to be a symbolic act to show the restructuring towards an eco-friendly energy provider (Zeit, Tagesschau, Spiegel). According to Institutional Theory, this is an example of normative pressure put on the company, as the staff reflects the company's values. In this context, an eco-friendly energy provider could not be led by a nuclear power advocate. Changes towards professionalisation can be seen in various examples within the last ten year. In 2015, RWE split into the RWE AG with focus on traditional energy generation and the Innogy SE which focused on renewable energy sources (website). This is not only an example of normative isomorphism, but also of mimetic isomorphism, as their competitor E.ON used the same strategy of separating traditional and renewable energy production by splitting up the company in 2015 (Handelsblatt). Besides job cuts in the nuclear power and coal power departments, RWE also specialised on energy generation in 2018 by selling the Innogy SE to E.ON in 2019 and acquiring the E.ON Climate & Renewables GmbH, leading to a professionalisation on energy generation exclusively and a detachment of the sales and networks department (Tagesschau, Handelsblatt).

### **Reflection**

Many aspects of the theoretical concept of Institutional Theory can be seen in the example of RWE as showed above which makes it a good example to show how the concept might work in a real-world example. Besides that, I have to qualify that this chapter only looked at the last ten years of the company's 120-year history and even within these ten years not all aspects of its development could be elaborated on. Institutional Theory suggests how a company's decision-making might be influenced, but it has to be considered that the actual process of decision-making is very complex and highly influenced by more variables than the ones showed above.

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# Institutional Theory: A Case Study on Olympus

*Lisa-Marie Wöhler*

## Introduction

In all societies, perceptions of what is right or wrong are shaped by culture, tradition and religion. The norms and values emerging from this cultural environment manifest themselves in the social structure that surrounds all members of society. In this chapter, I examine the influences of different social pressures on a company that arise in this context, by applying the institutional theory by DiMaggio and Powell (1983) to the case of Olympus. The analysis focusses on how culture, professionals and uncertainty might have a stronger impact on a company than factors such as efficiency and market competition.

## Theory and Practice: Institutional Theory and Olympus

Olympus is a Japanese manufacturing company, founded in 1919 by Takeshi Yamashita in Tokyo, Japan. Among other things the company developed the world's first practical gastro camera, a surgical instrument used for the examination of the inside of a patient's body, in a process called endoscopy. Today, the company is divided into three geographical divisions: the Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific. The headquarters of the three markets are located in Japan, USA and Germany. Up until the end of last year, Olympus consisted of three branches: medical systems the largest business domain, life science & industrial solutions and camera & audio. However, at the beginning of 2021 Olympus Imaging was sold. The company has over 35,000 employees worldwide and the total medical revenue in 2020 was ¥641.8 billion, around 5.1 billion euros (website).

The data on the company was gathered in an interview with Dr Martin Peters General Manager for Quality & Regulatory / Post Market Quality at Olympus Surgical. Additional information was taken from the Olympus Global website.

**Institutional theory** examines the impact of the institutional environment of society on organisations functioning within it. In this environment norms, values, practices and procedures have gained a rule-like status and exist as myths. To gain legitimacy and secure survival organisations have to incorporate said myths into their structure and actions. The myths must be

taken as rightful without taking their impact on work efficiency into account (Meyer & Rowan, 1977). DiMaggio and Powell (1983) examine that companies in an organisational field are very similar to each other and argue to not only attribute this observation to market competition. They call the process of organisations becoming increasingly similar “institutional isomorphism“. Three mechanisms of isomorphic change are identified. In the following, these mechanisms will be reflected upon, using the example of Olympus.

Firstly, pressures that lead to **coercive isomorphism** stem from the cultural environment, as well as government regulations (DiMaggio & Powell, 1983). As previously mentioned, Olympus is divided into three geographic regions. The production sites and headquarters are set in different countries, with different cultural environments. The manufacturing of goods is a collaborative process, but, up until 2011 they were managed regionally and were not regulated by any global management.

The expectations a company has to meet to be legitimised differ between societies. In Japan, many norms and values can be derived from Buddhism, Shinto and Confucianism. These belief systems teach members of the society values such as loyalty, collectivism, harmony, trust, discipline, hard work and traditionalism (Feldmann, 2007). Therefore, a company should strive to make decisions as a collective and consumer feedback should be dealt with politely and humbly to preserve trust and harmony. Complaints about a lack of quality should be treated as a system issue, not a person issue. The US and Germany on the other hand are much more individualistic and focussed on freedom. Highly valued are entrepreneurship, innovation and the empowerment of workers. A company is expected to keep up with market changes and needs, rather a short-term than a long-term vision. A strong market and consumer focus are expected, to strengthen the relationship with customers and prevent potential lawsuits. The First Amendment to the Constitution of the United States protects freedom of speech. This right is reflected in the number of complaints and lawsuits filed, in reaction to a faulty product (interview).

The resulting differences in work behaviour sometimes posed an obstacle to the collaborative work of the Olympus divisions. In the interview, Dr Peters explained that the development of new products sometimes became rather difficult due to differences in workflow. The timing was therefore sometimes a hurdle in the process of product development. It is not suggested that not

that one way is more efficient or "better" than the other, just that they are different and in some instances incompatible.

In addition to the cultural expectations, there are laws and regulations Olympus has to abide by. The medical industry is highly regulated, as the products have a direct impact on a patient's health and safety. A lack of quality of the products could potentially endanger an individual's lives. Therefore, the production is highly standardised and customer complaints must be taken seriously (interview).

Next, **normative isomorphism** stems from the influence of professional standards and communities on organisations. Professionals of a field have defined conditions and methods of their work. These standards are transmitted to the next generation of professionals through education and training (DiMaggio & Powell, 1983). As professions are part of the institutional environment, their status and field of activity might vary between societies. For Olympus, this manifests itself in differences of professionals responsible for certain tasks. For the Asia Pacific division, product development falls into the purview of an engineer. In America and EMEA on the other hand, it is the task of a product manager, who will collaborate with eg. doctors, to meet the customers' needs. The question of the responsibility of a task is not answered in regards to efficiency, but the decision follows whatever is legitimated in the institutional environment.

Lastly, **mimetic isomorphism** emerges from standard responses to uncertainty. Organisations might look up to and copy from other successful organisations to get back on track (DiMaggio & Powell, 1983). In 2011 Michael C. Woodford came into office as president and chief executive. He discovered that to cover up 1.7 billion dollars in losses, Olympus' books had been consistently altered for over two decades (Investigation Report, 2011). As a consequence, the company lost its legitimization and trust. The prevailing disunity created problems and things needed to change. Now met with uncertainty about what the future holds, Olympus reacted by changing its corporate structure and mentality. In 2012 Olympus introduced a global governance and management, to create a global group performance. A three-layer management system was established, consisting of the headquarters, regional and local management. Additionally, now united as "One Olympus" the company unveiled its new philosophy "making people's lives healthier, safer and more fulfilling" and the core values, "integrity, empathy, long-term view, agility and unity". Additionally, a third-party committee was established to investigate and bring transparency to

Olympus' malpractices (interview & website). A report was published, to inform the public on the results of the investigation. This report might have been an attempt to gain back the lost legitimacy, as it demonstrates that Olympus takes the misconducts seriously.

For the restructuring external help was required, thus business consultants were hired. According to the institutional theory, companies will hire analysts and strategists to find new solutions, but also legitimise their decisions, as they are based on external propositions (Meyer & Rowan, 1977). Whether Olympus looked out towards other successful organisations as inspirations for their restructuring is not known. However, the consultants they hired must have a deep understanding of the market, to provide advice. Their suggestions are based on knowledge of effective and successful strategies, derived from success models of other companies.

## Conclusion

In this chapter, I analysed the different influences on Olympus that originate from its institutional environment. As the company manufactures medical devices, strict laws and regulations have to be followed. A high standard of quality is needed to ensure the health and safety of individuals. The three divisions of Olympus are situated in different countries. Expectations that have to be met by the company arise from the countries' culture, religion and tradition. These expectations differ for the respective countries and are reflected in the division's activities and structure. Due to a lack of global management, these differences were able to divide the company and mistakes were made. The uncertainty that followed the 2011 accounting scandal, led to a restructuring of Olympus with the help of business consultants, based on strategies derived from observing successful companies.

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# Organizational Legitimacy Applied to a Sustainable Start-Up

Janna Zimmer

## Introduction

Organizational legitimacy<sup>30</sup> is a crucial principle in managerial and entrepreneurial activities and reflects the acceptance of a company by society (Scherer et al., 2013, p. 262). This chapter focuses on the three types of organizational legitimacy that Suchman coined in 1995: pragmatic, cognitive, and moral and the strategies of gaining and maintaining it. After explaining the types and strategies, it will be examined how they correspond to the sustainability-oriented start-up yōyoka.

## What is Organizational Legitimacy?

Organizational legitimacy is vital to a company's success in economic growth (Aldrich & Fiol, 1994, p. 646), its supply of resources (Suchman, 1995, p. 574), such as workers and capital (Pollach, 2015, p. 5), and the support of its constituencies (Scherer et al., 2013, p. 262). It affects how people understand businesses and act towards them (Suchman, 1995, p. 575). In 1995, Suchman defined legitimacy as follows: "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p. 574).

Thus, legitimacy is granted or denied by the company's audiences based on their individual judgment on its performance and role within society (Díez-De-Castro & Peris-Ortiz, 2018, pp. 5–6). Furthermore, Suchman (1995) distinguishes organizational legitimacy between three types: pragmatic, moral, and cognitive legitimacy.

*Pragmatic legitimacy* bases itself "on the self-interested calculations of an organization's most immediate audiences" (Suchman, 1995, p. 578). Through the direct exchange, or "broader political, economic, or social interdependencies" (Suchman, 1995, p. 578), constituencies support an organization from which they can derive personal benefits (Scherer et al., 2013, p. 262; Suchman, 1995, p. 578). They might also consider a corporation as legitimate if it is "responsive

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<sup>30</sup> In the following, organizational legitimacy will mostly be referred to as legitimacy

to their larger interests” (Suchman, 1995, p. 578) or if they sense that it has their best interests at heart (Suchman, 1995, p. 578).

Audiences confer *moral legitimacy* if the organization promotes principles and values that contribute to “societal welfare” (Suchman, 1995, p. 579) and are “above private interests” (Díez-De-Castro & Peris-Ortiz, 2018, p. 9). Audiences often reach their judgment through public discourses, and companies might win supporters if participating in these discourses (Suchman, 1995, p. 585). Moreover, Suchman (1995) lists four categories which evaluations may include, namely the companies’ outputs and accomplishments, their procedures and techniques, their structural characteristics, and lastly, their leaders, and representatives.

The third type, *cognitive legitimacy*, in comparison to the other two, is “based neither on interests nor on moral motivations” (Treviño et al., 2014, as cited in Díez-De-Castro & Peris-Ortiz, 2018, p. 10). It is often referred to as “comprehensibility” (Díez-De-Castro & Peris-Ortiz, 2018, p. 10) because audiences grant this type of legitimacy if they “understand the organization in all dimensions, its structure, the way it does things, its processes, its growth or its location” (Díez-De-Castro & Peris-Ortiz, 2018, p. 10) or take it for granted so that “alternatives become unthinkable” (Suchman, 1995, p. 583).

### *Legitimacy strategies*

In complex environments with multiple challenges, it becomes necessary for companies to employ several legitimacy strategies (Scherer et al., 2013, p. 261). According to Suchman (1995), confirmation, selection, and manipulation aid the *gain of legitimacy*. Companies can gain pragmatic legitimacy “by conforming to instrumental demands” (Suchman, 1995, p. 589) of the audience, moral legitimacy “by conforming to altruistic ideals” (Suchman, 1995, p. 589), and cognitive legitimacy “by conforming to established models or standards” (Suchman, 1995, p. 589). Scherer considers confirmation as the “isomorphic adaptation strategy,” meaning that corporations adapt their organizational practice to conform to societal expectations (Scherer et al., 2013, p. 263). Selection is about finding an environment that approves of the company as it is (Suchman, 1995, p. 589). Besides, Scherer also elaborates on the “strategic manipulation strategy,” indicating that organizational practices assiduously influence societal expectations by manipulating the environment’s perception (Scherer et al., 2013, p. 263). Another category that Scherer refers to, unlike Suchman, is “moral reasoning” (Scherer et al., 2013, p. 264). It means that the corporation

participates in a discussion with its audiences to defend “its status quo and behaviour” (Scherer et al., 2013, p. 264). Both parties “try to learn from each other and eventually adapt their positions constructively” (Scherer et al., 2013, p. 264).

There are two approaches to how to *maintain legitimacy*. Firstly, by noticing changes that might lead to future challenges and guarding against them (Suchman, 1995, pp. 594–595). Secondly, by strengthening the legitimacy a company already has acquired and “developing a defensive stockpile of supporting beliefs, attitudes, and accounts” (Suchman, 1995, p. 595).

## About yōyoka

In 2019, Hanna Wedekind founded a start-up that distributes yoga mats using 100% recycled plastic and regenerative natural rubber. The start-up’s goal is to allocate high-quality mats with the least possible use of energy and resources to achieve ecological, economic, and social sustainability. Initial to the foundation was the notion that conventional yoga mats made from plastic do not include the yogi’s sustainable mindset. Consequently, yōyoka’s purpose was to tackle the question: “how can a company be ecologically and socially responsible, yet grow economically through the promotion of sustainable consumption?”. The start-up also fosters awareness and endorses initiatives supporting the preservation of the planet’s natural resources as well as several Sustainable Development Goals. It builds on a community that shares these values and can identify itself with yōyoka’s guiding concept that is “conscious for change.”

The data was gathered on yōyoka’s website and through an interview with Alexander Fuchs. He works on Finance and Impact Assessment at yōyoka. Hanna Wedekind agreed to address further questions via email.

## How Does the Principle of Legitimacy Apply to yōyoka?

Due to “the growing societal sensitivity to unsustainable business practices,” engaging with sustainable development becomes more important and challenging for managers and entrepreneurs (Scherer et al., 2013, p. 260). Being a small start-up, yōyoka must seek legitimacy to attract resources and customers and to achieve economic growth. Consequently, it employs several strategies mentioned above, leading its customers to grant pragmatic, moral, or cognitive legitimacy for different reasons.

High-quality and contaminant-free yoga mats can contribute to a better yoga experience and the own health. The consumers have certain personal benefits when buying mats from yōyoka, for example, a better feeling because they do good for themselves and nature, and therefore might grant pragmatic legitimacy. Customers automatically support the preservation of the earth's natural resources, too, since yōyoka donates to Gili Eco Trust for every mat sold. The company conforms to ideals that become progressively valuable for society, which can be considered a strategy for gaining moral legitimacy. The initial idea, however, did not base on the current sustainability trends but the planet's needs, namely a more sustainable consumption. The foundation of the start-up did not build on an isomorphic adaptation to societal expectations. Yet, yōyoka profits from the current sustainability trend due to the raising awareness among all people, although yōyoka primarily addresses people who share their values. Targeting a specific group of people can be seen as selection. The fact that a yoga mat's price is above market average also limits the start-up's environment to people who approve of the organization as it is. Another strategy to gain legitimacy, being part of strategic manipulation, is advertising (Scherer et al., 2013, p. 264). Yōyoka advertises its principles and vision, for instance, on social media.

Moreover, transparency is essential to yōyoka. The goal to be as transparent as possible has not evolved to meet customer's demands. Still, customers might grant cognitive legitimacy because it enables them to comprehend the organization and its procedures. They are, however, less likely to accord this type of legitimacy because they take yōyoka for granted and consider alternative companies unthinkable. Other companies are much more established on the market, such as “yogistar” and “lotuscrafts,” and more accessible to a larger number of people due to more affordable prices. Even though it is questionable if their mats can be considered alternatives despite being less sustainable, it is not common to view yōyoka as the first choice when buying a new mat.

Customer contact is vital to yōyoka and might be for its success, as well. It is a measure to strengthen the legitimacy that it has already acquired. For example, customers can join the “conscious community” and participate in events and surveys. Besides, interaction with consumers is useful to notice challenges that are to come. Yōyoka responds to the feedback it receives and cooperates with a performance & digital marketing agency that analyses social media reactions. The start-up also learns from past mistakes and pays attention to trends to be able to meet the demands of their audiences. This interaction can be considered “moral reasoning,” as it is the company's opportunity to present itself and win audiences' legitimacy.

## Conclusion

Yōyoka's target group has diverse reasons to grant pragmatic, moral, or cognitive legitimacy. These reasons are tied with the strategies that yōyoka applies since every strategy aims at giving the audiences a reason to confer legitimacy. Most of the strategies mentioned in 2.1. were found in yōyoka's organizational activities. However, they mainly do not aim to gain nor maintain one particular type of legitimacy but rather legitimacy in general.

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## **VI. Effectuation**





# Effectuation and How It Is Applied in Practice

*Carlotta Bentz*

In this paper, I first explain the concept of Effectuation regarding the understanding of Sarasvathy and Faschingbauer. Afterwards, I take a closer look at how The Wrigley Company, later bought up by Mars Incorporated, used effectual logic in order to form a successful venture. In doing so, I am mostly referring to the website of Mars Incorporated and to an excerpt on the history of Wrigley from Batchelors “1900’s”.

## The Theory of Effectuation

### *Introduction*

Effectuation is a concept of entrepreneurial decision-making and problem-solving brought forward by Saras D. Sarasvathy in 2001. It is seen as an “inverse to causation” (Sarasvathy, 2008) The ideal setting for applying effectuation is when the future is uncertain and difficult to predict. Effectuation proves to be helpful in the process of exploring new business opportunities.

Sarasvathy conducted an experiment where 27 so called “expert entrepreneurs”<sup>31</sup> were put in the situation of founding a startup while filling out a questionnaire of 17 pages (Sarasvathy, 2008). Further, they were supposed to disclose their thoughts and elaborate on their decisions-making process. This allowed Sarasvathy to draw conclusions and reveal similarities in their problem-solving abilities as well as to categorize the answers into one of the following two categories: causal logic or effectual logic. Sarasvathy discovered that especially in the early stages of founding a new venture these expert entrepreneurs mostly relied on effectual decision-making. (The Society for Effectual Action; 2018)

### *The Five Principles of Effectuation*

The concept is characterized by the following five principles: “bird in hand” principle, “affordable loss” principle, “lemonade” principle, “pilot in the plane” principle and “crazy quilt” principle.

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<sup>31</sup> expert entrepreneurs: entrepreneurs in business for at least 15 years, having experience with the creation of various companies including failures and successes (Sarasvathy, 2008)

This section discusses these principles that build the fundamental basis of the concept of effectuation.

The first principle is called “*Bird in Hand*” principle and consists of reflecting on the following questions: Who am I? What do I know? Whom do I know? In this phase, the entrepreneur thinks about the means available, including the own identity, values, skills and contacts. Contrary to causation, where the entrepreneur first determines a fixed goal, effectuation is about working with what is at hand. This entails having many different options and goals which may further develop and change during the process. Entrepreneurs look at their surroundings and social network in order to find possible stakeholders that can contribute and commit to the venture at an early stage (Faschingbauer, 2014). If a stakeholder wants to contribute, they bring in further means and discuss and develop the future of the business together. Overall, effectuation is not about setting fixed goals but staying flexible and being able to adapt to new situations, partners and surprises.

The second principle is called “*Affordable Loss*”. Entrepreneurs act effectual by evaluating what they can afford to lose. The means are limited to the extent of the entrepreneurs’ risk tolerance and reaching this limit results in failure of the venture. However, following the concept of effectuation, even failure is an opportunity. Contrary to the broad notion of failure at the end of a process, in the case of effectuation failure can be used to learn from it and to improve. To that effect, Effectuation is a process of Trial and Error. If you fail a new approach can be attempted without much preparation because another characteristic of effectuation is that entrepreneurs tend not to think and plan much but rather quickly trying things out. Following this process of decision-making allows entrepreneurs to discover whether their idea is a valuable one at an early stage.

The “*Lemonade*” principle describes the planning with uncertainty. The entrepreneurs are aware of the uncertain characteristics of the market and know that it cannot be predicted. They work with coincidences by looking for benefits in each situation always eager to spontaneously react, adapt and take chances. This is intricately connected to the “*Pilot in the Plane*” principle because “To the extent we can control the future, we do not need to predict it.” (Sarasvathy, 2008) meaning that effectuation wants to actively co-create the future by influencing the surroundings consciously.

The last principle is called “*Crazy quilt*” and uses the metaphor of a patch work blanket. This principle’s focus lies in the partnerships at an early stage. The right partners are the ones willing

to commit and take responsibility. Potential customers could also be involved already in the creation of the product. Together they work out shared values and goals.

These five principles introduced above build the fundamental basis of effectual decision-making. The application thereof is discussed in the following section using the Wrigley Company as an example.

## **Application of Effectuation in Practice**

### *Origin of The Wm. Wrigley Jr. Company*

The Wrigley Company was founded by William Wrigley Jr. in 1891. At the age of 29 he decided to move to Chicago after having worked in his father's soap company for 20 years. While we do not know exactly how he started his business, there is evidence of Mr. Wrigley Jr. applying the *bird in hand principle* to the decision-making in the early stages of his company. Using the contacts at disposal to create a new venture, Wrigley Jr. started a partnership with his father to sell his soap. The initial decision to partner with his father is an example of the *cray quilt principle*. Wrigley's strengths were the ability to know how to approach customers and his for these times extraordinary sales strategies. He was seen as one of the "world's greatest salesman" (Batchelor, 2002) because of advertisements and his experience in the soap industry. Since "everybody likes something extra, for nothing" (Wrigley Jr.), he gave away baking soda to the customers of the soap. As the baking soda became more popular than the soap itself, Wrigley decided to respond to the customers' needs and started selling the baking soda. This decision-making reflects the bird in hand principle as it was not planned but the means and the circumstances led Wrigley Jr to take the risk and thus the opportunity to become more successful. As a new give away to the baking soda, he added chewing gum which itself was loved by the customers. According to effectual decision-making, Wrigley Jr., still being flexible and willing to transform, started the production and sale of chewing gum which, as we now know, turned out to be a huge success. The brand Wrigley is still dominating the chewing gum market today (Statista, 2020).

In 2008, the William Wrigley Jr. Company was acquired by Mars Incorporated for about \$23 billion (The New York Times, 2008).

### *How Management Is Performed Today at Mars Incorporated*

Mars Incorporated was founded by Frank Mars in 1911 and started business in selling candy (Mars Incorporated, 2020). Today, their main business fields are selling candy, petcare, food including brands such as Ben's Original and in 2019 they started working on healthy nutrition as well. Mars Incorporated is still an entirely private and family-owned business. Chairman Badger says that the private ownership gives them "the capacity to make decisions quickly" which is an advantage compared to big stock companies. Corporate identity and shared values determine the surroundings and work at Mars Incorporated and play a vital role for the Mars family (Victoria Mars; 2017). In an interview with Yale Insights, Victoria Mars explains that the shifts from a low profile towards a transparent company was needed to fulfill the customers' wishes and in order to stay successful.

Is Mars Incorporated still operating effectual today?

Their vision "The world we want tomorrow starts with how we do business today" (Mars Incorporated) already incorporates some effectual logic by saying the future is based on what we do today. Hence, Mars actively wants to co-create the future. This assumption is further supported by looking at the guidelines- the *five principles* visualizing the company's corporate identity, values and goals. The first principle is *quality* the "consumer is our boss" meaning that the company is dependent on their customers. They have to keep meeting the changing tastes and thus innovate continuously. Furthermore, every associate must take *responsibility* as an individual as well as the company as a whole towards the customers, society and the environment. Open and direct communication is expected from all associates which Mars supports by having open space offices. Additionally, Mars Incorporated strives for long lasting and strong partnerships that benefit each party and share the same values. Due to the everchanging nature of the environment, Mars Incorporated has to be able to adapt quickly. While their culture shows aspects of Effectuation in some instances such as their vision, it also incorporates causal decision making for example when acquiring new product lines.

### **Conclusion**

Theories and concepts are rarely completely applied in practice. In particular this concept of effectuation forms a helpful base for unpredictable market situations, as Sarasvathy explained. However, it is noteworthy that in different situations causal thinking and decision-making could

be a better choice. In practice we find a combination of many parts of different theories. By analyzing the history and the culture of a company dependent on a specific concept, you will always stumble upon different ideas and the appliance of other concepts. This research taught me the significance of staying flexible and its value. Even in established and rather predictable markets shifts do happen because the needs and demands of the customers are ever evolving. Hence, in order to stay successful, it is important to keep the customers wishes and society's norms and values in mind and satisfied. Mars Incorporated had to give up parts of their privacy in order to meet the increased demand for transparency.

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## Effectuation: A Guarantee for Success?

*Paulina Bröling*

### Understanding the Market Conditions

John P. Kotter (1996) an expert on business leadership describes that “[t]he rate of change in the business world is not going to slow down anytime soon. If anything, competition in most industries will probably speed up even more in the next few decades” (p.161).

What exactly does this mean for organizations operating in such a market environment? Becoming successful presupposes an awareness of the constantly changing conditions. Among other things, advanced technologies are arising, the needs of the customers are changing, and new markets are emerging. To keep up with these rapidly transforming environments, organizations need to adapt by implementing concepts of management and/or entrepreneurship (Kotter, 1996). A variety of theories, strategies and concepts already exist. If applied correctly, promising business opportunities leading to revenue growth, competitive advantages, or product innovation can be discovered and created.

### Effectuation: An Overview

Effectuation is an entrepreneurial concept that helps organizations with making decisions. It has first been described by Professor Saras D. Sarasvathy. Through analyzing how expert entrepreneurs solve problems that a start-up typically encounters, Sarasvathy was able to point out commonalities between the entrepreneurs.

As a result, five key principles have been identified, as well as the understanding that effectuation is best used in an environment in which the future cannot be anticipated. Even though the concept was built on the expertise of decision-making for start-ups, it can be applied by established organizations. In contrast to the concept of causation, the starting point of an effectual approach is to gather the available means (personal connections, knowledge, financial resources, ...). These means will determine in which direction the innovation process can and will go. The second step is the interaction with possible stakeholders. As more agreements are being made, more resources are available thus narrowing down what will be at the end of the development. These two steps will be repeated until something new has been created (Faschingbauer, 2017).



## Effectuation and AFS

In the following section, the key principles that guide effectuators in a decision-making process are pointed out and applied to the case of AFS International Programs. The data was gathered from the main website <https://afs.org/> and the website <https://www.the-afs-story.org/> which provides rich information on the transformation of the organization.

The name American Field Service (AFS) indicates the original purpose of the NGO, which has been established in 1915 in France. Back in the days, AFS was a wartime humanitarian aid organization which worked with American civilians who voluntarily ferried and treated wounded soldiers at the front. Between World War I and World War II the AFS Association had been established, enabling volunteers to reunify, and offering fellowships to American and French students for the other country's university. As World War II broke out, AFS went back to being an ambulance corps, serving alongside different nations.

Soon after the war ended, a secondary school student exchange program was founded to promote cultural understanding and secure peace. These exchanges are still ongoing. Moreover, AFS added programs that are not school based.

### *Key Principles and Linkage to AFS*

The first principle of the effectuation model is called the bird-in-hand principle (Sarasvathy, 2008). "A bird in the hand is worth two in the bush" is a popular proverb suggesting that you should hold on to what you already have, instead of taking the risk of losing it for something that might be better. In the concept of effectuation, these are three different means, namely your identity, knowledge, and social network. When applying this principle to the case of AFS the first question concerns the mean "identity": *Who was the entrepreneur (Sarasvathy, 2008, p.15)?* The founder of the way, in which exchanges are being carried out by AFS Intercultural Programs today, was Director General Stephen Galatti (1888-1964).

*What did he know?* Galatti joined AFS as an ambulance driver in 1915. During his time as a volunteer, he was appointed different positions in the organization such as Assistant Inspector General, making it possible to gain experience about the daily operations of AFS's management. Galatti helped the AFS Association with establishing the French Fellowship, a pioneer program for a two-way cultural and educational exchange. Upon the outbreak of World War II, he

reactivated the ambulance corps of the first World War. In addition to that, Galatti engaged in raising funds, training the volunteers, and planning the supply of material goods. *Who could be fellow stakeholders?* After the end of World War II, Galatti wished to perpetuate the AFS spirit, deepen the relationship between volunteers and encourage cultural understanding and tolerance.

Driven by this idea, he gathered key supporters to discuss about the future of the organization. One group of stakeholders were the ambulance drivers who committed by contributing their time and effort to preserve the traditional values. Another stakeholder directing the future of AFS was the States Department Fund that sponsored the scholarships. Working with stakeholders Galatti knew and who had similar experiences, made it easy to communicate and design drafts for potential goals. One could argue that having acquaintances as stakeholders might limit the access to diverse ideas, resulting in less creativity and less novelty (Faschingbauer, 2017). Despite these possible constraints, the gathering of the stakeholders set a milestone for AFS Intercultural Programs. The idea of expanding the French Fellowship to more countries build the basis for the establishment of AFS International Scholarships (AFSIS). As stated earlier, effectuation is goal-driven which means that if a wish for something new evolves, effectuators will act quickly to turn it into an opportunity.

The second key element of effectuation is the affordable-loss principle, which covers the question of “what one is willing to lose” (Sarasvathy, 2008, p. 15). For profit-oriented organizations this means that they set a sum x, which can be spent on research or similar activities before taking the product to the market. This way a possible loss is defined and will not cause more harm than the stakeholders can handle. How and why AFS was forced to determine what it could lose in order to keep up with the challenges of the mid-1980s will be elaborated next. The lemonade principle describes that problems are not perceived as such. In the market, contingencies cannot be avoided, therefore effectuators try to leverage surprises and frame problems into opportunities (Sarasvathy, 2008). Till the late 1970s, AFS financial situation has been steady but then the market environment drastically changed. More and more profit-oriented exchange organizations emerged, creating competition that has not been there before. Additionally, blocked currencies and the inflation of the dollar were a threat to the economy. To regain control, AFS decided that the affordable loss had to be the sponsoring of the students. By actively changing its financial structure, the existence of the organization has been secured. Furthermore, the NGO slowly transferred authority and financial accountability to new partners.

This decentralization process has been exploited by the partner organizations that turned the initial challenge into an opportunity to create a new type of program, namely multinational exchanges. Accordingly, AFS International Scholarships changed its name to AFS Intercultural Programs. The crazy-quilt is another metaphor which has been turned into a principle. Just like a quilt is sewed out of unique parts, a successful organization consists of a diversity of people. Effectuators do not systematically choose stakeholders (Faschingbauer, 2017). As long as one is willing to commit to an effectual approach, he/she can self-select into the organization. While stakeholders can freely choose which mean to offer, they are advised to bare the affordable-loss principle in mind. In the case of AFS, the ones that primarily self-selected into the process by granting access to their means were the volunteers. Until today, the organisation is dependent on volunteers, which is why a lot of effort is taken to bind Returnees, sending and host families. AFS encourages ex-participants to stay in the organization to make an impact. The way of engaging can still be freely chosen. One way could be to offer space for meetings, another way could be to promote intercultural exchanges in schools or in public to recruit new participants. The participants can therefore be seen as stakeholders fulfilling both the position of a (previous) customer and the position of a partner.

At last, there is the pilot-in-the-plane principle which is embodied in all the aforementioned principles. It suggests the worldview that even though the future cannot be predicted, some parts of it can be shaped or co-created by using an effectual approach (Sarasvathy, 2008).

## Conclusion

Overall, the question whether effectuation is a promising approach for an organization, can be partially answered by analyzing the given circumstances. If the market cannot be anticipated and is dominated by human agency, it is suitable for effectuation. In addition, the starting point should be the desire for all types of change or innovation instead of a predetermined goal. For some organizations that fulfil these general criteria, effectual decision-making may lead to a successful development. Nevertheless, effectuation alone is not a guarantee for success. In practice it is best used to complement or be complemented by other concepts.

AFS Intercultural Programs made a lot of decisions using effectual logic but it is important to notice that it also used criteria of other concepts. The method of applying various decision-making criteria ensured its existence for over a century. For instance, if the organization had not changed

its financial management as a response to the rising competition, it would not have survived the contingency of the 1970/80s, but it did. For that, AFS continues to successfully run international exchange programs, preserving the AFS spirit that has once been the desire leading to the creation of the organization.

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# Effectuation: How Expert Entrepreneurs Deal with the Unpredictable Future

*Valessja von Groeling*

## Introduction

Expert entrepreneurs are often admired for having the right ideas and being successful. As a byproduct they make money and inspire others. This perception of successful entrepreneurs is assumed as something that can't be taught or learned but is dependent on an entrepreneurial talent.

In this chapter I would like to present a scientific approach of research to the expert entrepreneurial mindset and decision-making process. It is about startups developing and creating ideas without predicting the future but utilizing and controlling it. It depicts the question: is history the result of a set of plans or a number of random contingencies?

Effectuation is an economic method and describes a dynamic system. To simplify the understanding, I want to derive five key principles by the example of the company GOTBAG, a 2018 founded startup from Mainz, Germany. The information about GOTBAG is withdrawn from their website and image videos.

Effectuation, as the results of various studies show, signifies that in times of uncertainty significant differences can be seen in managerial and entrepreneurial heuristics (Read, S., Sarasvathy S., et al. 2009, p.1). While managerial driven economics rely on predictions about the future, effectual entrepreneurs use a non-predictive technique to invert uncertain future markets into opportunities (Read, S., Sarasvathy S., et al. 2009).

2001 Sara Sarasvathy started her research on *expert entrepreneurs*, defined as entrepreneurs with 15 years of successful founding history (*Effectuation was ist das?* w.d.), and by today there are more than 120 scientific studies and 10 books in 5 different languages (*Globale Forschung*. w.d.).

This variety of studies in multiple industries helped to better understand five key heuristics that can be taught: means of orientation, affordable loss, building partnerships, leveraging contingency and “pilot-in-plane” (Read, S., Sarasvathy, S. 2009, pp. 10-13). The sum of these five pillars is conceived as the effectual method and distances itself from resting on a logic of prediction, but on the logic of control (Sarasvathy, S. 2001).

## The Key Principles

The main pillars the effectuation principle is based on is the assumption that we cannot depend on our predictions and make decisions *ex ante*. Compared to the classical management stigma, starting by forecasting, planning and then acting, effectuation principle starts by assessing what I have, who I am, what is around me and being open for new ideas and pathways.

### GOTBAG: Introduction

Just four years ago Benjamin Mandson and Roman Ruster, friends since high school talked about the challenges the ocean has to face due to massive plastic exposure and the extinction of species.

They saw an opportunity and created the idea of having a positive impact on the nature by producing a product which cleans the ocean. After two years of planning, they launched their first backpack made out of 100% recycled PET plastic from the ocean (*Gründerstory* w.d.).

The main philosophy of GOTBAG is the preservation of the species in the ocean and the regeneration of the maritime ecosystem. Benjamin, being a father, stated his wish to find sustainable solutions for future generations. They sought for what they had at hand to create an impact and started their business. This complies with the first principle of effectuation, the bird in hand principle.

### The Bird-in-hand Principle

This is where Benjamin and Ramon, the central actors in our picture of effectuation, started off with and what is their main philosophy of enterprise: using what is at hand, ocean plastic. They orientated themselves on the resources they had and not on a classical management of a goal. There are three key questions entrepreneurs concern themselves with: *who am I*, *what do I know*, and *whom do I know*? Answering these question leads them to: *what can I do*?

Since neither Benjamin or Ramon studied something related to business or design, they started by creating contacts and finding partners. They needed experts for transforming PET into nylon yarn and afterwards into backpacks. Their resource “waste” was given and at hand. As effectuation claims that the utilization of resources matters more than the “attribute of resources themselves” (Sarasvathy, S., Kumar K., 2013, p. 78). GOTBAG followed this stance and used the resources

available. They only had to *invest* into networking and the collection of PET-plastic (Cinewa, 2020).

## **Affordable Loss**

The second principle of effectuation, the “affordable loss” principle, translates into: what can I afford to lose and what am I willing to lose in case my concept does not turn out as planned?

The affordable loss excludes the damage of high-risk decisions and is the opposite of the classical picture of the risk-taking character of an entrepreneur. An effectuate entrepreneur evaluates what he can invest without endangering his existence. He makes decisions based on acceptable loss instead of possible profit potential (Sarasvathy, S., Kumar K., 2013, pp. 73-74).

GOTBAGs two founders commenced their enterprise by enrolling a legal form of GbR. They did not choose the more assured legal form of GmbH, since it would have been a bigger investment in the beginning.

## **Lemonade**

The third principle is a quality of mindset and an important aspect concerning entrepreneurial decision-making. Sara Sarasvathy (et al. 2009) stated, that if “people can control the future, they do not need to predict it.”.

I want to display this with an example: We plan to draw a painting by using yellow and blue. During the process of drawing both pots of color tip over and get mixed up. A managerial mind would try to fix this “chaos” and return to the preceded order. An effectual mind applies opportunity recognition, uses this chaos and transforms it into something new. The color green.

“Embracing new, discomfiting information allows unfruitful experiments to be abandoned and emergent possibilities to be leveraged” (Sarasvathy, S., Kumar K., 2013 p. 74). This allows deviations from the original plan and builds on the perception that the conditions of our future are in enhanced uncertainty. Entrepreneurs therefore treat all resources and plans as fungible and search for the exaptation of what they have.

Benjamin and Ramon took the “chaos” of massive marine litter as an opportunity to design their backpack. Even though their product “a backpack” was a rather safe investment, the innovation they took out of the “chaos” was the new way of producing yarn. Fishermen already collected



ocean plastic as a byproduct of their fishing. GOTBAG took this chance and transformed it into something useful. They do not predict the future of people wanting to buy sustainable, but they are controlling it by using the problem and producing an attractive offer for customers.

## **Crazy Quilt**

The fourth principle of effectuation is about networks and partnerships. GOTBAG states it as one of their key principles: “we are strong if we pull together at the same rope and have fun doing so” (website). They want to motivate others and share their inspiration. Appositely, a citation by Aristotle about emergence: “The whole is greater than the sum of the parts”.

Effectuation proposes to put the effort normally invested into identifying the “right” stakeholders, into connecting to a variety of people and conversations to create new committing ventures. In this process it is important that “right stakeholders put ‘skin in the game’, because they see opportunity in cocreating the venture with the entrepreneur” (Sarasvathy, S. et al. 2013).

GOTBAG started with coworking by gaining the needed know-how for designing and fabricating their backpack. Today they work together with *sequal* (Stöckle, U., w.d.) and rely on a network of 1500 fishermen in Indonesia and on Pei Yu in Quanzhou where the tailoring takes place (Produktionsstätte w.d.). Apart from their partners who play a role in creating a backpack, GOTBAG started projects with various organizations to fulfill their promise “to work in the service of nature and the oceans” (SWR Landesschau 2019 min 3:18). E.g.: CleanHub, Sea-Shepherd, Coralgardeners and Toyota (Partner w.d.) With these cooperations they thrive to gain new impact, ideas and develop the company continuously.

## **Pilot-in-plane**

The fifth principle is based on the perception that history is not run by an autopilot but by us, the copilots. (Sarasvathy, S. et al. 2013 p. 75). It emphasizes the role of us to intervene in the future and take control. The Future is cocreated rather than inevitable trends and causalities. It even rejects these logics. Expert entrepreneurs wish to learn more about the future. Not in the sense of perfecting their predictions but in learning how to intervene, utilize and even reshape future contingencies. (Sarasvathy, S. et al. 2013).

## Summary

Effectuation proves that entrepreneurship is not about having the right idea, but about the mindset of decision-making and the perception of opportunities. It is a learnable principle which drives change in today's society. It allows companies a new form of agility which is advantageous in a rapidly changing economic system. Effectuation is not supposed to supersede causal managerial decision making, but to offer agility in the right moment. In secure and certain times, it is beneficial to use managerial strategies such as predicting the future and basing decisions on it.

Benjamin and Ramon fulfilled a variety of effectuation principles along the way. Especially the bird in hand principle is still applied. Even though it is sad to know that they will probably never run out of resources for their backpacks, it is motivating to see that they used the opportunity to truly fulfill the effectuation principle and do good with it. In my understanding, effectuation is now more than ever, a well explaining method for entrepreneurial success. Due to our rapidly developing society, it is impossible to predict future market events, so we have to choose to make the best out of it.

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## **The Concept of Effectuation: Shown in the Start-up Klarna**

*Johanna Kahl*

### **Definition and Comparison of Effectuation and Causation Logic; Klarna Bank AB**

Many of you probably know this feeling, in this continuously changing world, to have an idea to improve certain processes, to help our planet or to change the way of thinking of people with a successful innovation. You want to “effectuate” something in the world. Of course, you might also want to pursue your business idea. But how could you do that?

One option is to use the Causation logic, the usual approach for companies, according to which you decide on your goals, you want to reach, first and then calculate the most efficient way in which you use your given means (Emran, 2020).

But is this logic suitable when you establish a product or service with a high degree of innovation and it is not sure if your business idea works out?

No worries. There is another option: The logic of Effectuation. With this approach you can still be capable to decide what your next steps are even though you are in an uncertain situation with different problems to face. You act on assumption of existing resources and adapt your goals according to changing circumstances (Emran, 2020).

How do you know that this logic also leads to a successful start-up? Well, Dr. Sara Sarasvathy developed this approach of Effectuation after she conducted an experiment in collaboration with the winner of the Nobel Prize of Economy Herbert Alexander Simon in 1997. She asked 27 experts, who already established a very successful start-up, how they would build up a fictional company. The experts spoke out loud their line of thoughts and the result of this analysis was, that they actually did not act according to the Causation logic and instead used the principles of the Effectuation logic. 2001 she published her paper about this experiment and the concluding approach in the “Academy of Management Review” (Gründerszene, 2016)

The Effectuation approach is a completion to the Causation logic, not a substitution, depending on your kind of innovation, your available means and your business environment (Effectuation – die Logik der Super- Entrepreneure, 2020).

Klarna Bank AB is a Swedish start-up, founded in Stockholm in 2005 by three students Sebastian Siemiatkowski, Niklas Adalberth and Victor Jacobsson. It is a financial platform which facilitates payments on behalf of other companies and takes over the risk of missing payments for them. In return, how Klarna makes its profit, the start-up receives a fixed calculated fee from the purchase price of the order. The customers of online shops are able to pay their orders in a simple way with less effort which reduces delays in payments. There are many different ways to pay: After 14 days from the date of order, installments or instant purchase and an overview of outstanding payments can be found in the Klarna app. Klarna has become Europe's most highly valued privately held fintech company (About us | Klarna International, 2020).

### **Klarna in Comparison with the Principles of the Effectuation Logic**

In the following I will highlight, how the Effectuation logic is conducted in Klarna by comparing the way of establishing this start-up with the principles of Effectuation.

Effectuation is a decision and problem-solving logic in uncertain situations of entrepreneurship. This logic is applicable while launching an existing product in a new market, a new product in an existing market or while developing a whole new business model with a small amount of data and a big amount of uncertainty. It is a dynamic and interactive process in which new changes and conditions are created. Effectuation is a framework for entrepreneurs and the principles are tools which they can use in uncertain circumstances at the beginning of a new project (Emran, 2020).

Let me give you an example which exemplifies this: Imagine you want to travel somewhere. In Causation logic you would first choose your travel destination and then you would try to reach this destination in the most efficient way possible, what means you will choose a cheap but also a fast way of transport to have as less time and money effort as possible. In contrast to this, according to the Effectuation logic you would analyze your available resources first, which way of transport is possible with the time and money you have and then you would decide on a travel destination according to this (Reh, 2020, S. 28).

There are five principles which explain the Effectuation logic in more details.

The first principle is the "bird-in-hand principle: Which resources are available?" While creating something new the orientation at available means and resources is helpful (Emran, 2020). Klarna was founded by three students and that means they did not have that much money available, but

they used the resources they had to first found the start-up Kreditor (renamed as Klarna later) in 2005 (The Klarna Business Model – How Does Klarna Work & Make Money, 2020). It is important to focus on who you are (your traits, tastes, habits), what you know (your education, training, expertise, experience) and whom you know (your social and professional networks) (Effectuation and its application in youth entrepreneurship training, 2018). So, also their characteristics, skills and connections to other people enabled them the foundation of Kreditor. At the beginning every start-up does not have fixed concrete goals but rather several options which also can be contradictory and change with time (Emran, 2020). I would say that the three entrepreneurs had a fixed goal before, according to Causation logic. This goal occurred while Sebastian was working in a debt collection agency where they collected outstanding payments on behalf of stores because customers used to forget to pay their invoices in time and he wanted to change that with a platform which enables simple and prompt payment options for the customers (The Klarna Business Model – How Does Klarna Work & Make Money, 2020).

The second principle is called “affordable-loss-principle: Which loss is affordable?”. In Causation logic a goal is chosen according to which goal promises the highest revenue. Since entrepreneurs and their projects have an uncertain future they cannot expect a fixed amount of revenues, they can only invest as much as they are able to dispense (affordable loss). It is essential to analyze the current financial situation, living situation and the individual readiness to assume risk (Emran, 2020). The founders of Klarna did not find investors first, they even laughed about them because they did not have any trust in an online payment platform made by students who do not have money in general. So, the students decided to risk an amount of money although they were not sure, if they can find investors in the future, much less that the idea work out at all (Radszuhn, 2013). The question you have to ask yourself is: Are you ready to spend time, money and effort although there is the risk that your project will fail?

“Crazy-Quilt-principle: Which partnerships and cooperation are possible?” is the third principle which indicates that searching for partnerships with everyone who could improve your project and ignoring the fact that the business partners could also be competitors can contribute to the progress of the project. The idea then becomes a dynamic process through the different people working on it. Accepting other opinions, decisions, criticism and suggestions is decisive to improve your business idea and to find new solutions. It is of utmost importance to connect with potential stakeholders and investors as early as possible to create a whole network which ensures your

business project (Emran, 2020). This is exactly what the founders of Klarna did. They visited networking events and asked other start-ups to try their online platform, following the motto “customers attract customers” (Radszuhn, 2013). In 2007 they were successful with this strategy and their first investor was the venture capital company Investment AB Öresund. Through that they even could expand their business to Norway, Finland and Denmark. After that they changed the name from Kreditor to Klarna and in 2010 also expanded their idea to Germany and the Netherlands (Wikipedia-Autoren, 2011). So, socializing is important for the first big step and after you found the first investor, it is easier to attract others.

“When life gives you lemons, make lemonade” is the main point in the fourth principle: “Lemonade-principle: Which random occurrences are chances?”. In Causation logic you try hard to avoid coincidences which could change the way you are working on your project, but in Effectuation you welcome exactly those coincidences and surprises. You recognize unexpected events as chances. Handling those random occurrences in a creative way brings the start-up a step forward and develops new innovations (Emran, 2020). Of course, also the founders of Klarna got lemons from life and had to think “out of the box” to make lemonade out of them. Although Sebastian and his fellow students got really bad feedback while presenting their idea of an online payment platform at an innovator’s pitch “Entrepreneurship Award” of Stockholm School of Economics in 2005, they established Kreditor despite the opinions of other people (The Klarna Business Model – How Does Klarna Work & Make Money, 2020). After the uncertain beginning, their business became so successful, that in between no unexpected events could throw them out of balance. Probably they used Causation logic here too, because when a business is running well, then of course you try to avoid situations you cannot control.

The last principle is called: “Pilot-in-the-plane-principle: How do you deal with future developments?”. “The best way to predict the future is to create it (Abraham Lincoln). Entrepreneurs are able to create and regulate future developments by themselves. Do not look into the past, focus on the present and upcoming decisions, imagine the future and then act accordingly (Emran, 2020). And what did Sebastian, Niklas and Victor do? They did not look back into the time as investors were laughing at them, they made decisions which brought Klarna forward and imagined a future with uncomplicated online payment. Klarna is now cooperating with more than 200000 merchants in 17 countries. The total online order volume increased through Klarna and

especially during the Corona pandemic they experienced a big growth in requests for online payment solutions (About us | Klarna International, 2020).

## Summary and Future Perspectives

To sum it up, it is important to check your available resources and then decide what you are able to do according to your resources and your readiness to assume risk. Try to interact with as much different important people as possible and visit networking events like the Klarna founders did. Take unexpected events you cannot control as chances. Negotiate, either you have to set new goals or get new means from investors and therefore you have more resources available to expand your business, become successful and create the future market with your innovation (Braunleder, 2020).

It is also clear, that the logic of Effectuation is not always suitable and though you establish an innovation you might have to make use of Causation logic in order to be successful. But Effectuation is for all the ones with a sudden spontaneous new idea in their mind and goals which are not clearly defined yet. The society needs those innovative ideas, nowadays more than ever before. It might be easier to pursue those ideas following the logic of Effectuation but at the end it is your decision which logic fits best to your project. I am sure during the time at home, while Corona pandemic is going on, a lot of creative ideas are waiting to be implemented.

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# How the Effectuation Approach is Executed at Green City Solutions

*Carlotta Marie Klöckner*

## Introduction

Green City Solutions is a blossoming Green-Tech company, which was founded in 2014 with the idea of improving people's quality of life in cities. They are visioning a world, where people in cities, especially in metropolises, can live a healthier life through breathing fresh air. The CityTree is the world's first bio-tech filter to quantifiably improve air quality. The company is based on a long-standing friendship between its four founders. The idea of the product was created through own experiences and desires. Liang Wu, the CIO, was born in Singapore, but moved to Germany as a young kid. Through an internship and visits to his birthplace, he noticed a huge difference between the air in Singapore and his rural hometown in Germany. He had hard times breathing in the metropole. Moreover, on travels, all founders noticed the increased air pollution in cities. Therefore, they were inspired by the vision of developing a product, which contributes to a healthier life in cities (<https://greencitysolutions.de/>; TED, 2020).

The first CityTree was installed in Jena April 2015 acquired, through the AOK plus. In July 2016, Green City Solutions expanded their scope to the international market by establishing the first CityTree in an Asian region, in Hongkong. By the year of 2020 they had successfully installed over 50 CityTrees in more than 10 countries. During the last years of development, the Green-Tech company has won many awards, for instance the "Plus X Award" as well as accomplishing first place in the realm of "Environment" from the initiative "Deutschland-Land der Ideen" (<https://greencitysolutions.de/>).

## The CityTree

Special moss cultures filter fine dust from the air by transforming them into their own biomass without any waste. Particulate matter and nitrogen oxides are being bound while oxygen is being produced. Environmental performances and status data are generated through IoT Technology, hence accumulated in the cloud, and visualized by a web-based application in real time, which is available for the costumers by a special developed dashboard, integrated in the CityTree. The IoT Technology infrastructure includes numerous points of measurements, which can be quantitatively

viewed at any time. Care and maintenance are supplied by a controlled ventilation technology; a grid connection providing energy and water assurance is provided either connected or independent. Seeking for expertise, the performance of the CityTree and its technology is being proofed and verified by independent experts, e.g. Climate Kic Berlin, TROPOS Leipzig, Grimm Aerosol Technik GmbH and TÜV Nord (<https://greencitysolutions.de/>; TED, 2020).

One CityTree is equivalent to 10 trees. Furthermore, within a year it can bind up to 150kg of CO<sub>2</sub>. In comparison, a beech is capable of binding 10-15kg of CO<sub>2</sub> per year (Galileo, 2020).

## **The Effectuation Approach**

To examine how management and entrepreneurship is being performed at Green City Solutions, their journey of development is being analysed with the Effectuation Approach.

Green City Solutions underwent the process of exploring the idea to build a CityTree providing fresh air for people in cities, supported by different stages and principles of Effectuation to define their proposition further.

With the “Bird in Hand” principle, the four founders of Green City Solution were seeking to build a new venture. Determining the means and values though questioning themselves: “Who am I?”, “What do I know?”, “What do I do not know?”, “What goes against my values?”, etc. The four founders and friends had the intension to build a company for their first time in their life that is similar to a start-up. Visioning and evolving a complete new innovative idea that is not based on history data. From the beginning, the necessary know-how and skills to build a biotech start-up was contributed through the cofounder’s abilities. An interaction between the fields of architecture, horticulture, engineering, and informatics was enabled through their personal expertise (<https://www.effectuation.org/>; Szambelan, 2019). They started to work with what they had – as the founder of the principles of Effectuation Saras Sarasvathy (2009) says, “doing the doable and then pushing it”.

The Effectuation theory conveys the approach of “Affordable Loss”, which implicates investing what you can afford to lose. To start the company, Green City Solutions used their own little capital instead of external capital, which is called bootstrapping method. Effectual entrepreneurs estimate the downside and examine what one is willing to do and give. Getting together in a garage, each founder contributed 300 € to create the first prototype for exhibiting their product and idea to the

public (Noething, 2020). The founders simply enjoyed developing their idea because what is the worst that could happen? They would have had low failure loss. According to Peter Sängner (cofounder): “Starting a company with the bootstrapping method can be difficult. If a mistake is made during the process, the money could be gone, and a second chance could be arduous” Noething (2020). During the first years, Green City Solutions had to cope with uncertainty, due to limited resources. Struggling with scarcity of money and constant changes of arrangements was not unusual (<https://www.effectuation.org/>; Pawęta, 2016; Szambelan, 2019; Kluck, 2020).

As one can see, the approach of “Affordable Loss” always bares risks and yields obstacles, due to limited resources. However, it means constructing something which comes from “who we are” and it is the start of the process of building the project to bring other stakeholders on board.

For Green City Solution it was certain to overcome the first phase of process by themselves, before offering something presentable for stakeholders (Noething, 2020).

The biotech company started to interact with people, along the lines of the “Crazy Quilt” principle of Effectuation, to further fund the the CityTree. The principle focuses on building partnerships rather than beating competitors (<https://www.effectuation.org/>). Hence, they created a business plan to bring their product to the market. Green City Solutions started to seek for venture capital and stakeholders through initiating customer projects by presenting the market for their product and demonstrating people’s interest. Forming a relationship with Climate Kick Berlin – an accelerator with purpose and environmental awareness - they found their first stakeholder who did contribute know-how and supported their product. Over the years, Green City Solutions bolstered their network of strategic partnerships with stakeholders. This led to greater means to pursue new ideas. Due to their increasing network and therefore increased know-how, the firm could reach new ventures and wider markets. Over the years, the company expended internationally and constructed different and improved versions of the CityTree (Noething, 2020; <https://greencitysolutions.de/>).

Nevertheless, the firm worked beyond the Effectuation Approach through seeking debt capital. In 2015 they were able to convince a bank on investing 100.000€ seed capital, which they were able to pay back in 2019. Furthermore, the company won price and pitch money, and was being awarded with the founder scholarship in Saxony. External capital played a significant role in the process of growth and paved the road for further development (Noething, 2020).

Green City Solutions also relies on the “Lemonade” principle of effectuation, which stands for embracing and leveraging surprises. Unexpected circumstances can be perceived as chances and offer entrepreneurial opportunities, for instance the fair of Hannover (<https://www.effectuation.org/>). During Green City Solutions first phase, they had the onetime chance to present their prototype at the fair of Hannover. Initially, they only had a 3D model of the CityTree on a computer. Within 2 weeks the team needed to create a physical prototype. The result: no sleep, maximum stress and quivering until the last minute, but with success. They finished the prototype just in time and therefore were able to present their product at the fair (Gabler, 2015).

Even if the future cannot be predicted, entrepreneurs are in control – so is Green City Solutions – like a pilot who can control factors that determine the future course. Another principle of Effectuation which focuses on co-creating the future (<https://www.effectuation.org/>). It is the decision of the firm with whom they cooperate. Additionally, Green City Solutions owns and strongly controls their value chain through independence, which is crucial for their desired outcome. Everything is being produced at one location at their moss farm in Brandenburg. There, they cultivate their own moss cultures, as well as constantly trying to improve them. Furthermore, for the CityTree, the Green-Tech company uses technology which they build. A 3D painter supports their independence through producing particles of the CityTree. Relying on their own resources and means enables their independence and control (<https://greencitysolutions.de/>; P. Sängler, personal communication, July 9 2020).

Effectuation is more than just taking the efficient path; it is a process of exploration and a resource-based and heuristic approach – it is an experimental process of learning with personal interaction and partners. Green City Solutions have the vision to provide fresh air for people in cities, the idea of creating a City Tree, but they had no pre-set goal. The team of employees, stakeholders, and experts, as well as the execution and adaptability following the approach of “effectual logic”, were the key points for the company’s successful development. It was their reason of providing fresh air – not profit making, which motivated them. Effectual thinkers believe that, “if I can control the future, I do not need to predict it” (Big Think Interview With Saras Sarasvathy, 2009). Green City Solutions did not worry about predicting the future, instead they found a good moment to start their company building a product that can control the future in a time of increased environmental awareness and fighting air pollution in cities. Overall, Green City Solutions is an excellent example

of executing the Effectuation Approach leading to a successful development (<https://www.effectuation.org/>; Pawęta, 2016; Szambelan, 2019).

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## **Dreaming Big and Effectuation: Does that Work?**

*Dewina Leuschner*

### **The Principles of Effectuation**

Effectuation is a frame of thinking for entrepreneurs brought up by Saras Sarasvathy in 2008 and based upon her research with 27 expert entrepreneurs (Sarasvathy, 2008). The main emphasis within the Effectuation model is the unpredictability of the future, especially within new markets and in the beginning of the founding process of a business. The Effectuation model consists of five main principles.

#### *Bird-in-Hand*

An entrepreneur using Effectuation will never start a business by asking what he wants to achieve and then finding ways to make it happen but by starting to use what already exists to make the most out of it along the way (Sarasvathy, 2008, pp. 74-81). That means that sometimes the first plans and ideas might change along the way due to different new insights and possibilities. It is not predetermined what kind of business will exist at the end of the journey. Three main questions that are to be asked at this point are the question of the own identity, the question of the own knowledge and the question of the own network. Out of these existing means an expert entrepreneur will build up his business.

#### *Affordable Loss*

The principle of affordable loss describes how an entrepreneur plans for the future, whereby it is essential to say that decisions are never made by calculating an expected return but by defining what the entrepreneur is willing and able to put into the venture (Sarasvathy, 2008, pp. 81-88). The energy, time and especially money the entrepreneur defines is what he can afford to lose in the worst case. Additional input to the venture comes through other stakeholders and co-creators but still the planning has no expected outcome or a needed input to start.



### *Crazy-Quilt*

A great part of Effectuation is the network of stakeholders and co-creators which can be described as a patchwork quilt (Sarasvathy, 2008, pp. 88-89). Entrepreneurs do not search for specific network partners based on preselected goals but let different stakeholders take part in the creation process of the business. Everyone who is willing and able to contribute something is part of the determination of goals, means and next steps.

### *Lemonade*

The lemonade principle determines how the entrepreneur deals with unexpected events and problems (Sarasvathy, 2008, pp. 89-91). He is not trying to avoid problems or fighting against them, but he rather uses his given resources to make the best and most profitable out of the situation.

### *Pilot-in-the-Plane*

The pilot in the plane principle is deeply connected to the unpredictability of the future (Sarasvathy, 2008, pp. 91-94). It describes that an entrepreneur follows the logic that “to the extent that we can control the future, we do not need to predict it.” (Sarasvathy, 2008, pp. 91). What follows from this, is that the entrepreneur does what is within his control in a however uncertain situation even without trying to predict anything by doing market research or analysis.

## **Wendy Kopp & Teach For America**

The Non-Government Organization (NGO) ‘Teach For America’ was founded by the college graduate Wendy Kopp in 1989 ([teachforamerica.org](http://teachforamerica.org)). The basic idea was and is until today that excellent college graduates (1) spend two years after their graduation teaching students in public schools in low-income areas and (2) will use their experiences to be leaders in whatever work path they choose to ensure the vision that “one day all children in this nation will have the opportunity to attain an excellent education.” ([teachforamerica.org](http://teachforamerica.org)). Today Teach For Americas teacher corps include more than 5,000 members and 58,000 alumni.

## Effectuation within Teach For America

The environment in which Teach For America was founded is full of uncertainty and unpredictability as we are talking about the education system which is mainly man-made and for that dependent on human actions (Kopp, 1989, pp.118). Kopp never invested any resources in big market research or analysis but simply started by going the first step.

The three questions of the bird-in-hand principle deeply determined where the idea for the concept came from. Kopp was aware that she rather wanted to create real change than to just work to earn a lot of money (Kopp, 2001, pp 3-9). She had a deep interest for education as she worked in several college initiatives and had a roommate who suffered from the inequalities within the education system and she knew many other college students who also felt the desire to do something meaningful at the beginning of their career. In the beginning Kopp had just a very broad vision about what she wished to do: “A. to help solve teacher shortages.” (Kopp,1989, pp.109-120). To achieve that, she brought together what already existed around her: students, schools, college graduates. In the first year, Kopp planned to keep the work simple and doable by just addressing four or five areas and only secondary schools where the teacher shortage was already pressing. However, I need to admit that Kopp had a plan that was in some parts too detailed to be called Effectual logic as she predetermined a funding goal of 2.5 million \$ and a goal to reach several thousand applicants (Kopp, 2001, pp. 10-22).

When talking about the principle of affordable loss, Kopp herself could not invest any money but a lot of her own time and energy (Kopp, 2001). Though she never really determined a limit she would be able to put into that. Especially in terms of finance Kopp worked against the Effectual logic by predetermining the funds needed for the founding and also along the first years of Teach For America. Only after some years of struggling Kopp realized that she had to change this way of thinking. When the resources in time and energy run low, she shut down a partner organization of Teach For America called TEACH!. Furthermore, she became aware that a better strategy to plan the finances of the organization was to first raise funds and then decide what was possible to do with the money available and not vice versa which then finally matched with the Effectual logic.

From the moment of the very first idea of a teachers corps Kopp focused on networks and partnerships, which is a great example for the crazy-quilt principle of Effectuation (Kopp, 1989).

She planned to co-operate with universities, principals, governors, national politicians and school district officials. To recruit college graduates Kopp worked together with representatives on the campus who advertised for the project (Kopp, 2001). When it came to funding Kopp did not focus on a specific group of possible funders but reached out to whoever she could think of, which included the CEOs of Mobil Oil, Coca-Cola, IBM, Apple and the Bank of America. Throughout the whole founding years Kopp was open to the input of various stakeholders. One example for that was the implementation of the partner organization TEACH! which had the purpose to fulfill funders requirement that Teach For America should have a systemic impact, that the organization itself could not fulfill to that extent.

In the occurrence of several unexpected events, Kopp proved her ability to use the lemonade principle to make the best out of the situation. When her staff gave her an ultimatum to make “all organizational decisions [...] by vote” (Kopp, 2001, pp. 67) or they would leave the organization, she decided to restructure Teach For America with the help of Nick Glover, the vice chairman of Whittle Communication (Kopp, 2001). For the first time she gave specific positions to her employees who beforehand just worked as one team where everyone took part in the work that was most urgent at the moment and by that change improved the efficiency of her team. At another point the organization unexpectedly did not raise enough funds for the summer institute in California, which forced Kopp to relocate the institute to a university in Houston, Texas. There she had the chance to create a new teaching model for future corps members by implementing a summer school for actual students from that region which was a great success for both sides.

Even though I already proved several times in my previous descriptions how Kopp acted as the ‘pilot-in-the-plane’ (Sarasvathy, 2008), by e.g. keep searching for funders tirelessly or changing the whole structure of her organization in a very uncertain situation, there are many other more specific indications for that (Kopp, 2001). After the first recruitment had happened Kopp quickly realized that she had to shift her focus from methods of recruitment to the support and training of her corps members, who showed a need of that. Kopp not only employed several regional officers who were in charge of the support but started to offer additional workshops to really face the wishes of the corps members. When some years later there was financial shortage, Kopp decided to let go the at this time 60 regional officers at the end of the school year and restructured the support of the corps members by involving regional experts for co-operations instead.

## Conclusion

The concept of Effectuation by Saras Sarasvathy is especially helpful to begin new businesses in an uncertain environment (Sarasvathy, 2008). In my chosen example it can be seen that Kopp on the one hand might have learned what she knew about business leading from the causal model rather than from the Effectuation model but at the same time, maybe due to her young age, intuitively used Effectuation logics, like the bird-in-hand principle, the crazy-quilt-principle and the lemonade-principle. It also needs to be said that the organization type of an NGO might be a special case when it comes to the principle of affordable loss as even in the best case there is no expected return. In a way of first funding and then planning the principle can be adapted to this case as well. Altogether this proves, that even having a big dream doesn't need to stop you from using Effectuation. The broad vision most dreamers have, need to be put down to a concrete way of acting and as this example shows, Effectuation can be a guide along that way.

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## Effectuation in a Young International Company: “NSN Holdings International Uganda Ltd”

*Vanessa Nehler*

### NSN Holdings International Uganda Ltd

NSN Holdings International Uganda Ltd – in the following referred to as “NSN” – is an Ugandan consulting company in Kampala with its origin in Germany. Initially founded in 2016 by Stephan Nehler, Manfred Sieg und Luisa Natiwi, it is today mainly led by its president Stephan Nehler.

The three business partners happened to build connections to many Ugandans interested in business consulting and beyond that even to the Ugandan government after an unforeseen chain of events. Acknowledging the demand, they started a company for international collaboration and for fulfilling various economic needs of the Ugandan society and government.

For this examination about the extent to which the company’s decisions follow Effectuation logic I used information of the company’s website <https://nsn-uganda.de/homepage/>, in addition to which I conducted a detailed interview with the company’s president Mr. Stephan Nehler.

### Effectuation by Saras Sarasvathy

Effectuation is a logic for making decisions and solving problems in an entrepreneurial context, “when the future is unpredictable, goals are unclear and the environment is driven by human action” (Sarasvathy, 2008, p.73). This normally refers to recently founded, not yet established businesses. Saras Sarasvathy created this concept after implementing an extensive study with experienced founders and entrepreneurs (Sarasvathy, 2008, pp. 15-16). Effectuation logic is based on the following five core principles:

*Bird-in-hand principle:* Maximize the use of your existing resources, the knowledge and personal contacts you already have instead of defining your goal first and acquiring the resources accordingly.

*Crazy-quilts principle:* Try to establish co-operations with different business partners who commit to your work instead of choosing partners according to market analysis.

*Affordable-loss principle:* Only invest as much as you can afford to lose. Minimize the risk instead of maximizing the profit.

*Lemonade principle:* Embrace and leverage surprises instead of avoiding them. See potential in less utilized resources.

*Pilot-in-the-plane principle:* Focus on activities within control as you cannot predict the distant future, but you can co-create the sooner future. Control it by choices and create it by actions instead of making long-term plans.

Effectuation logic is opposed by causal logic, which will replace Effectuation at a certain point because it does not serve for fully established companies anymore. Causal logic basically describes the proceeding of planning a venture all the way through and then executing it completely, whereas Effectuation always alternates planning and executing step by step (Akdemir, 2019, pp. 34-35).

The following examines how a young company can use Effectuation logic to its advantage.

### **The Effectuation Principles in NSN's Business Strategy**

NSN Holdings International Uganda Ltd makes use of Effectuation logic even though the founders were not aware of Sarasvathy's theory (2008). With the very founding of their company, the three partners already followed the first principle of Effectuation, the Bird-in-hand principle. They made the most of what they already had: business connections. All of them are coming from different industries: Mr. Nehler originally is a food wholesaler, Mr. Sieg an advertisement professional and Mrs. Natiwi a hotel specialist and author. So, the founders brought the most various kinds of previous business connections with them. Then having a concrete demand expressed by the Ugandan government, the partners saw a chance to use their preceding and current contacts to their advantage. Thus, the founding of NSN was resource-driven not aim-driven.

NSN's project work also represents the Crazy-quilts-principle in its core. The firm has very heterogeneous business partners – connecting with anyone who is willing to commit to their work. NSN works with globally acting enterprises- at this moment a seed sorting system is implemented for the Ugandan government by a German company. But NSN also works with German middle-class private investors who would like to drive forward the tourism, construction or food processing sector in Uganda. Moreover, there are collaborations with small farmers in rural Uganda who raise chickens and goats or plant melons which are being sold at the local market in Kampala in the

name of NSN. Even beyond that, the company works with research and education institutes – for example, an aquaponics project is developed with the Fraunhofer Institute to strategically breed Victoria perches at Lake Victoria and greenhouses are being implemented with the Agricultural College Bukalasa, in order to supply the locals with fresh produce and to facilitate professional training. Here Mr. Nehler makes use of his experience in food wholesaling, too. The consulting company benefits from all sorts of diverse collaborations enabling it to meet the most diverging customer demands and to design the firm's goals according to their established connections.

For NSN takes on different positions according to each project, it is able to choose how much risk the company is willing to take. NSN acts as an agent when a project is too big for the company to put their own capital at stake. Then the firm is paid according to their effort in driving the project forward stage-wise. The firm might not have maximized their profit in such an enterprise, but it will still earn money and ensures a failure of the project would not be ruinous for the firm, just like it does with their seed sorting system. But if the president is willing to invest the firm's own money in a project, he scales it up step by step. Only after implementing a pilot project successfully, the enterprise will be expanded. So, in case anything interrupts or terminates the project, just a minimized amount of money is lost – an amount the company can shoulder. Examples for this would be chicken farming, which started with 500 chickens and was scaled up with the profit it made to 1500 chickens so far, or the installation of greenhouses at the Agricultural College Bukalasa which started with two houses and is now being extended to six. For these reasons, NSN enjoys a wide scope of action when engaging with risks by embracing the Affordable-loss principle.

Mr. Nehler's mottos are representative for his attitude towards unwanted surprises. "Think outside the box" (interview) is his main guideline for he considers the ability to find solutions others cannot think of the decisive quality to prevail against competitors. Next to that, "Life is what we make it" (interview) resembles his choice to not view unexpected problems as obstacles but chances, just as the Lemonade principle suggests (Sarasvathy, 2008, p.16). In that manner for instance, Mr. Nehler decided to drill NSN's own wells. Their own, independent water supply was established after only two of six assured wells on the land designated for greenhouses, which require water supply to grow vegetables, functioned. In general, Mr. Nehler saw potential in less utilized resources in Uganda since the soil offers perfect conditions for farming, yet most companies seem



to not have been willing to take the risk of investing in Uganda so far, neither is the local agricultural sector satisfied.

Following the Pilot-in-the-plane principle, the firm's president would like to keep the direction the company has the potential to go open. This leaves him the flexibility to engage in all chances he sees and to design the firm's future according to these, not to a pre-set plan or goal. So, he can choose to not only locally trade with vegetables, with which the initial project began, but expand to exporting fish or vanilla, import construction materials, engage in the tourism sector or drive forward jackfruit as a meat alternative as he attempts to do nowadays. On the other hand, he is also able to decide to terminate a project in case he realizes changes of circumstances. Acting like this, he creates his sooner future by actions without relying on predictions about the distant future.

Nevertheless, planning certain steps is inevitable. Big projects like the seed sorting system need a middle-term schedule, reliability should not suffer from flexibility. Smaller projects which only require short-term planning are executed in small steps and scaled up later, so they can still be adjusted and improved along the way. Therefore, only these projects follow Effectuation logic in this regard. These are projects like the implementation of greenhouses, which experienced an interruption due to the unpredicted COVID-19 pandemic. If the pandemic had caused a complete termination of the ongoing project due to a lack of financial or other resources, at least only the pilot part would have been lost, not the foundation of all soon-to-be-built greenhouses.

Naturally though, NSN's business strategy cannot follow a theory in every single detail. Although the strategy is following the first, second and third principle examined here accurately to major parts, it is questionable whether the Lemonade principle is being put into practice as such. Sometimes what you could consider making the most of surprises is simply the necessary problem-solving which is most likely part of any business strategy. Also, despite the willingness of NSN, the Pilot-in-the-plane principle can only be followed if all external business partners involved in a project agree – which in lots of cases will rather result in strict business plans for the majority of projects. This showcases that Sarasvathy's theory cannot be translated to NSN's reality utterly.

## **NSN Holdings International Uganda Ltd: A Young Company Benefitting from Effectuation Logic**

In conclusion, it becomes apparent that – even though the founders were not aware of Sarasvathy's theory (2008) – NSN's business strategy so far follows Effectuation logic to a high degree. Thus, companies like NSN consciously or unconsciously embrace Effectuation principles to develop a successful business strategy. Although not all principles can always be found or at least not implemented to their full extent, recently founded firms are able to use Effectuation logic to their benefit.

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# Effectuation in Theory and Practice – Successful Entrepreneurship Exemplified by the Company MÄDMONK

*Lena Ruppel*

## Introduction

In today's fast-moving world, it has become increasingly challenging to create innovation – it seems that for every potential business idea, there are already multiple competitors creating the same or similar products and services. It is therefore of utmost importance for entrepreneurs who are seeking to create a successful brand to have the right approach when they are trying to make decisions and wish to turn their ideas into reality.

The question is: what is the right approach? Where does one have to start in order to establish their brand on a market that is overflowing with products of brands trying to do the same? Becoming an accomplished entrepreneur is, without a doubt, a demanding process. Between all the different strategies and theories of business building, the theory of Effectuation emerged in 2001, which contrasts causal logic with effectual logic in a decision-making process. The term was coined by Saras D. Sarasvathy, explaining diverse principles, techniques and mindsets that should be implemented by entrepreneurs, especially in the context of startups. Focusing on her findings, I will compare her theories to a startup from Lüneburg called *MÄDMONK*. The brand was established in 2018, producing a coffee soda beverage. In view of the rather fast establishment of the brand on the market, the question arises whether their approach to a successful business strategy matches Sarasvathy's theories.

## Effectuation

The theory of Effectuation is the result of a research project conducted by Saras D. Sarasvathy in 1997, who gave 30 entrepreneurs a problem set that they had to work through (Sarasvathy, 2001). Their responses were then evaluated to determine their approaches to problem solving in a company building process. The prevailing common logic among those entrepreneurs was effectual thinking – But what actually makes effectuation different from other possible approaches? Sarasvathy (2001) summarizes it as follows: “Causation rests on a logic of prediction, effectuation on the logic of control” (p. 243). Thus, causal thinking aims to predict the future and make

decisions with a certain goal in mind. Effectual thinking, on the other hand, acknowledges that the future cannot be predicted – unexpected influences change the circumstances and new opportunities might arise. With this in mind, the first step when initiating a new project should be to assess the means you have and see where that will take you, shaping the future yourself and letting the actual goal become evident over time (Sarasvathy, 2001).

There are five principles derived from this effectual mindset:

1. “Bird in Hand Principle” – You should start your actions with the means and resources you already possess.
2. “Affordable Loss Principle” – Determine how much you are willing to lose and do not focus on a potential positive outcome for an opportunity.
3. “Lemonade Principle” – Be open towards unexpected changes and remain flexible in order to use possible surprises to your advance, instead of seeing them as something that is holding you back from progress.
4. “Crazy-Quilt Principle” – Create a network and form partnerships with committed stakeholders to co-create the future with you.
5. “Pilot in the Plane Principle” – Focus on those actions which are within your control. The future cannot be predicted, but be made (Sarasvathy, 2008, pp. 73-95).

## MÄDMONK

### *The Company Background*

MÄDMONK is a cold brew coffee lemonade company located in Lüneburg. The initial idea of Patrick Zimmermann and the co-founder Felix Körner was to provide a more natural alternative to conventional energy drinks with a similar amount caffeine. The emerging trend of cold brew coffee was still very new to the German market a few years ago, hence the focus on the development of a cold brew beverage appeared very promising to them (P. Zimmermann, personal communication, December 9, 2020). When they worked on the concept of the product in 2017, they were both still students and new to the entrepreneurial world (P. Zimmermann, personal communication, December 9, 2020). Nevertheless, their strategies have proven successful, as MÄDMONK is now being sold in various well-known supermarkets and stores all over Germany. Given that it is a rather young company, I have talked to the CEO Patrick Zimmermann to learn

about his approach to entrepreneurship, whether his decision making matches the effectuation theory and how they were able to establish the brand on the market.

### *The Company's Connection to Effectuation*

According to Zimmermann, the company's development could indeed be related to some of Sarasvathy's principles of effectuation: taking into account that he and his co-founder had no entrepreneurial experience prior to the start of their business, they had to start from scratch and use the resources they possessed back then in order to get the ball rolling – therefore taking control of what they were able to control as the “Pilot in the Plane”. This shows that the “Bird in Hand principle” was very present in his first approaches, as the early days of the product creation were dominated by the question what they know, where to start and who to consult in order to make solid progress tangible. Experimenting with possible recipes was the beginning, sending out test samples to potential producers the next step (P. Zimmermann, personal communication, December 9, 2020). This is where the “Affordable Loss Principle” starts to become relevant, considering the founding of a company is always connected to a certain financial strain for the entrepreneurs. While it would be attractive to focus on the upside of an opportunity, one should rather take into account whether the consequences of a loss would be bearable (Sarasvathy, 2008). While the founders of MÄDMONK did invest their own money into the production of the first product samples that they had sent out to producers, their efforts were fruitless at the beginning (P. Zimmermann, personal communication, December 9, 2020). Even though they were hoping to arrange a business deal, which would have been the optimal outcome, this first investment was done by them knowing fully well that they might have to expect rejection. However, Zimmermann also emphasizes the importance of occasional high-risk decisions (personal communication, December 9, 2020). To him, it is sensible to minimize possible damage, but always choosing the safer option and not striving for more ambitious goals that might be connected to higher losses could prevent one from unanticipated successes.

The initial setbacks MÄDMONK had encountered were not a reason for them to abandon the project altogether, knowing that the rejections gave them an opportunity for improvement – with the change of the name and a new design of the product, soon supporters were found. The challenges they had encountered at the time were therefore not a hinderance, but useful input for the company's future. Zimmermann therefore agrees that the “Lemonade Principle” is a vital

mindset, as obstacles during the process offer room for personal growth (personal communication, December 9, 2020). The key challenge is to always keep an open attitude towards the evolution of a project, as the prediction of the outcomes is almost impossible.

Further, one principle that Zimmermann has internalized along the way and which he considers to be a crucial criterion is the increased potential for business opportunities when you put your focus on networking (personal communication, December 9, 2020). Some of the company's biggest success moments have come from connections he has acquired in the past few years – mostly people he has reached out to himself. Consequently, he has spent days solely calling around, contacting other companies and potential sellers. Zimmerman shared that it was necessary to be bold and a bit overambitious. Especially with a company that is not yet established on the market and the huge competition, it did pay off to be persistent when approaching possible business partners he wanted to work with (personal communication, December 9, 2020). He has since gathered a considerable network of partners, agreeing that the “Crazy Quilt Principle” has aided immensely in the acceleration of MÄDMONK's development.

Zimmermann pointed out that the journey of founding a company is a constant learning progress. Each day, you develop expertise and enrich your understanding of work strategies - he is always open towards more tips and perspectives on work methods (personal communication, December 9, 2020). The office space of *MÄDMONK* is shared with Henning J. Claassen, a highly accomplished German entrepreneur who has many years of work experience. Every now and then, Zimmermann seeks advice from him on certain matters to optimize his entrepreneurial skills. In the center of the tips obtained from Claassen stands the emphasis that the most crucial aspect for the survival of a startup, especially in the beginning, is not a long-term business strategy, but rather day to day efficient, hard work and constant self-reflection (H. Claassen, personal communication, November 11, 2020). This piece of advice is something Zimmermann considers fundamental too (personal communication, December 9, 2020), and the notion is similar to what effectuation implies in its essence: the focus for entrepreneurs should not merely be a tunnel vision for a goal in the distant future, but a constant analysis and assessment of the circumstances, opportunities and means available for the perpetual development of the business (Sarasvathy, 2001).

However, he also emphasizes that Sarasvathy's principles should not be seen in extremes. While they serve as useful guidelines that also have been implemented by him in the past, decision

making and entrepreneurship do not have to be exclusively either causal or effectual, but rather a mixture of both. He focuses on setting small goals for the daily agenda, but also alludes to the significance of a long-term, ambitious goal, even in the start-up phase. It could serve as a motivation for the efforts that are put into the work, even when you are aware that the journey might lead to something completely different. It only becomes dangerous when you neglect the opportunities outside the initial goal you aim for (P. Zimmermann, personal communication, December 9, 2020).

Concluding, the case of MÄDMONK indicates that indeed, the theory of Effectuation applies to the experience the founders of the company have gathered during the development of the company, especially with regard to the five decision-making principles implemented in the work structures.

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# Usage of Effectuation to Open a New Subsidiary Company

*Jakob Schulze*

## Introduction

New entrepreneurs are facing problems when launching their business nearly every day. What decides if it will be of success could be the theory of effectuation, a term coined by Saras D. Sarasvathy which, in general, describes how entrepreneurs handle different situations in the process of building and establishing businesses.

But not only young and new-to-the-market entrepreneurs have to make serious decisions that can be vital to the company and are able to open new possibilities of gaining profit. Would the concepts of Sarasvathy's effectuation help in some of those cases? Maybe today's entrepreneurs already do use the principles of effectuation?

To answer these questions, I interviewed a successful tax accountancy with several locations and subsidiary companies in Germany. I specified on the launching and development of one subsidiary company which is situated in the northern part of the federal state Brandenburg who chose to especially concentrate on farmers as clients. In the upcoming pages I will explain why they did that and how it worked by applying the concepts of Effectuation.

## What Is Effectuation?

Saras Sarasvathy researched why some entrepreneurs are successful (2008). After interviewing 27 expert entrepreneurs and analyzing the outcome she developed a way of thinking that many of those experts used in order to launch such profitable organizations. This new approach differs from earlier concepts and brings entrepreneurs not a fully described plan on how to start their business but rather a logic that can result in a successful venture.

In her book (Sarasvathy 2008) she describes five main principles which I will explain in the following part.

### *The Bird-in-Hand Principle*

In short, this principle describes that you – as a rising entrepreneur – should concentrate on the means you already have at hand. Those can be knowledge and skills as well as social networks.

Contrary to a causal logic, here the setting of goals comes second after identifying those preconditions.

### *The Affordable-Loss Principle*

The expert entrepreneur then determines what he can afford to lose. That means he does not have to rely on future income predictions to know if the venture could be of success but rather know in advance if the risk of failing at any stage is too big for him to carry.

### *The Crazy-Quilt Principle*

Committed stakeholders should be prized above possible stakeholders that you only wish to get involved. Early integrated stakeholders will have a much higher value for the venture and the chances on the market. Not chasing (preferred) stakeholders saves time and money which works well together with the affordable-loss principle.

### *The Lemonade Principle*

Successful entrepreneurs show that surprises do not always have a negative impact. The effectual logic here is to take advantage of surprises which often offer new possibilities that may be the turning point towards succeeding.

### *The Pilot-in-the-Plane Principle*

Since the future seems to be unpredictable anyways, the entrepreneur should control what is in his reach thus minimizing uncertainty. Especially for new products and new markets this will lower the risks of failing.

## **About the Company**

Because of data privacy reasons I will not mention the real name and website of the company which shall therefore be called Company B in the following paragraphs. The interview was done with one of the CEOs and is the source for my explications around Company B.

The original Company B started in 1983. Around seven years later and after a successful establishment of the firm, the subsidiary company, this chapter is about, was founded. In general,

they offer financial accounting and consulting for entrepreneurs and farmers as well as several performances for private persons.

### **How Did the Company Use the Methods of Effectuation?**

Before the opening of the subsidiary company the management knew that this region in Brandenburg had an increasing number of farms with an amount of 5038 already in 1991 (Troegel 2010). Given that they even knew some potential clients in the region, they decided to start the venture there, unconsciously using the bird-in-hand principle. They had a clear understanding of their own knowledge in accounting and finance and combined that with the possibilities of the big market for consulting of farmers but also used the opportunity right after the fall of the Berlin Wall with offering a service and professional branch that did not exist in this form in the GDR. One could state that this was an application of the lemonade principle by taking advantage of the current unexpected situation as well as the pilot-in-the-plane principle by having a lot of control in this new market.

Building up Company B was true to the affordable-loss principle: Not knowing if this step will be profitable, they only started with two employees and rented cheap rooms. Slowly there showed up new clients and through word-to-mouth recommendations the increase of clients was almost exponential. More profit could be made, and Company B could extend in terms of employees and range of influence. This spontaneous growth was highly effective for winning stakeholders that actually care about the company and their future thus resembling the crazy-quilt principle and its benefits.

### **Had the Usage of Effectuation a Positive Effect on the Company?**

While it is quite possible to argue that some of these examples may also be part of an entrepreneurial orientation rather than an effectual orientation, it is suggested that a combination of both will be more successful (Szambelan 2019). Szambelan especially puts emphasis on the creating factor of effectuation which will often help expanding the already established firm and mostly cannot be found in a traditional approach. This can as well be seen in the described situation of Company B where effectuation opened a largely new market with a big potential. By being able to control this opportunity and having a growing network of stakeholders and clients, in the

beginning Company B made 100 % of the revenue from these self-selected farmers. The plan worked really well.

For this beginning phase of a new (subsidiary) company, the affordable-loss principle seems to be the most important one for without its usage the development of the firm via the before detected means and goals can result in a dramatically loss of money and means if the process fails. In the example of Company B there were low expenses and with only two employees failing of the subsidiary company would not lead to an extreme loss or even bankruptcy of the whole company. With this way of approaching risk an entrepreneur or - as we found out in this paper - a company may start multiple projects with an uncertain outcome and still survive in case of not succeeding.

To answer the question: The concepts of effectuation really did help establishing the subsidiary company and thus had a positive effect on the whole tax accountancy. After this start with effectual logic the managers began using more causal and traditional methods but nevertheless relying on what they achieved before. Through their network and because they reached awareness there followed not only farmers but also industrial as well as freelance clients. The subsidiary company grew with their new clients and could become a partner of the original company.

In conclusion I can say that effectuation can be a pushing or even vital factor for a company that wants to open a new branch. In the later development there are other approaches that may find solutions but depending on the situation the five principles of effectuation can bring a lot of possibilities and safety even to an already established firm.

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# Effectuation in the Entrepreneurial Culture and Structure of W.L. Gore & Associates

*Jan Sieben*

## Introduction

Normally, large private organizations have followed a Taylorist work and management ethic where a strict hierarchy with top-down decisions by the shareholders and managers is common. Decision-making had always been broken down to the causal order formula of prognosis, planning and action. Already in the early 20<sup>th</sup> century, Frank Knight recognized that the state of “uncertainty” (Knight, 1921) affects the predictability. More recently, forecasting the future has become further challenging due to new branches and technologies being created.

Bill Gore tried to adapt to this contemporary phenomenon by creating a culture within his company that encourages entrepreneurial thinking of the employees. This culture focuses less on trying to predict the future, but rather on actively shaping and designing it.

In her groundbreaking work on the entrepreneurial expertise, Saras Sarasvathy observes the aforementioned development in organizational studies and devises the concept of effectuation as a paradigmatic shift in entrepreneurship research. This concept is oftentimes illustrated as a diametric opposition to business orthodoxy, whereas Sarasvathy points out that the two models do not necessarily mutually exclude each other (Sarasvathy 2001).

## Management and Entrepreneurship at W.L. Gore & Associates

### *Background and History of the Company*

W.L. Gore & Associates is one of the largest privately held company in America and is specializing in products derived from fluoropolymers. This groundbreaking chemical compound is used in a variety of innovations in the electronic, industrial and medical industry, but best known for the waterproof GORE-TEX ® fabric. It was founded in 1958 by Wilbert L. Gore and his wife Genevieve. The company claims on their website ([www.gore.com](http://www.gore.com)) to record \$3.8 billion annual revenues, with more than 11,000 employees that they refer to as “associates” and 3,400 unique

inventions in a wide range of fields. They present themselves as “A uniquely inventive, technology-driven enterprise focused on the discovery and product innovation.”.

### *Avant-Garde Culture and Lattice Structure*

Gore & Associates has a distinctly unique culture, which evolved in its early years as a successful company with small teams. This idea derived from Gore’s former workspace at DuPont. Here, multidisciplinary work groups emerged for certain problem situations outside of formal management.

In 1967, Bill Gore introduced what he later referred to as “culture principles” (Gore, 1976) of the company. The paper differentiated four core principles: freedom, commitment, fairness and waterline. To him fairness is of capital importance: Both the treatment of colleagues at work, as well as the payment, meaning that Gore & Associates compensates based on the personal contribution to the organization (Manz et al., 2009). Thus, an associate who does not commit to the company receives no paycheck. Associates enjoy the freedom to be creative, innovative and assistive together with other associates. The so-called waterline principle is a metaphor for the need to consult other associates in regard to profit and reputation since the metaphorical ship would otherwise sink. His belief in this principle is so pronounced that all associates are stakeholders of the company, therefore having a shared responsibility for the organization and its success, which leads to the feeling of friendliness towards colleagues Manz refers to as “camaraderie” (Manz et al., 2009, p. 240). This egalitarianism also holds for the unique and innovative structure of the company.

Gore’s corporate structure is considerably different from a conventional vertical hierarchy, that is comparable to a ladder or pyramid scheme, where there are permanently appointed leaders and managers who control and command their subordinates. Gore & Associates have implemented a structure of flat and flexible nature, labelled as the lattice structure, with unique features: It provides a direct and fast communication line, without intermediaries and bureaucracy hindering the contact. There are no conventional “bosses” or fixed authorities, instead, the employees have contact with sponsors. Executive positions are being elected by the associates in a democratic process, not appointed by a single person or small group (Manz et al., 2009).

The uncommon structure heavily relies on the concept of natural leadership which is being exercised at Gore. Temporary leaders emerge as other associates consider them to be credible. This may be due to them being especially experienced or skilled in a certain topic, because of their series of success or other reasons. Natural leadership is therefore founded on followership, meaning that project leaders emerge and motivate followers to join their project. A decision should not be made by the person in charge, but by the person with the most knowledge Manz et al. describe the company to be “one integrated, continuously evolving, self-organizing team of leaders and followers.” (Manz et al., 2009, p.242).

## **The Concept of Effectuation by Sarasvathy**

### *Definition and Explanation*

Dr Saras Sarasvathy, a cognitive scientist, analyses the application of certain methods and practices in an empirical study across the USA. In her work “Causation and Effectuation: Toward A Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency” she aggregates her findings from the protocol analysis regarding similar methods that successful (modern) entrepreneurs use into the concept of effectuation. She characterizes a decision-making approach, where one identifies the next step by assessing the available resources instead of a predetermined goal (Sarasvathy, 2001). Sarasvathy sees her conceptual work as a decision-making paradigm under the circumstance of Knightian uncertainty (Knight, 1921; Sarasvathy, 2001). This paradigm was introduced as a complementary logic and critique to the prevalent and common causal or linear approach to decision-making, so-called causation, arguing that causation is not suitable for entrepreneurship processes distinguished by uncertainties and risk (Read et al., 2015). Instead of a linear model, effectuation is a cycle of feedback and reevaluation of available resources. When comparing the two models in her work, she notes both to be intrinsically connected to human reasoning and therefore for them to be intertwined. To visualize them however, she juxtaposes them as a dichotomy (Sarasvathy, 2001).

She formulates five principles for effectuation processes that were observed among the successful entrepreneurs (Sarasvathy, 2008):



1. The **bird in the hand** principle means that organizations extend the use of existing resources, contacts, ideas and experiences to the maximum without having predetermined goals set.
2. The **affordable loss** principle focuses on defining acceptable financial losses rather than imagining the highest possible outcome of a project, meaning that return should not directly be expected.
3. The **crazy patchwork quilt** principle emphasizes on collaborative networks with different partners and building a self-selected stakeholder network to prevent competitive analysis.
4. The **lemonade** principle is meant with seeing potential leverage points in less-utilized resources.
5. The **pilot in the plane** principle is the very essence of the effectuation logic and manifests that it is crucial to focus on controllable activities. The core of this principle is to try controlling and shaping the future instead of predicting it and reacting.

### *Effectuation Applied to Gore & Associates*

At Gore & Associates, there is no committee, figurative “pilots”, deciding on the next goal, instead, they try and control the future by letting associates experiment with components. Employees are even encouraged to work on their ideas half a workday each week. Rather than exploiting the most profitable idea, the organization tries to use its resources to the maximum by developing innovations of every possible nature. The organization grants their workers the freedom to work on projects without spending in risky innovation so that associates can follow their and others’ ideas until they have cleared uncertainties regarding the profitability. The waterline principle leads to the conclusion that a decision is only going to be evaluated by the management if it endangers (financial) stability of the company. The metaphorical lemonade is their versatile component polytetrafluoroethylene itself, which led Gore to establish the firm in the first place.

### **Conclusion**

Gore & Associates has one of the most advanced and innovative leadership and structure concepts, focusing on collaboration, effectiveness and creative innovation. Especially their principled culture encourages entrepreneurial thoughts by the associates and endorses the permanent lattice structure that is contributing to the company’s tremendous success. Saras Sarasvathy identifies the

concept of effectuation that is observable at Gore and generalizes the entrepreneurial expertise into five core principles which can be applied to the organization. Her hypothesis of effectuation being the most suitable concept of decision-making in modern entrepreneurship under uncertain circumstances is therefore verified for the focal case of an innovative privately held corporation.

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## **Concluding Remarks: Meet the Future—with International Business Administration and Entrepreneurship**

*Matthias Wenzel*

In this 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 Apple to uprising startups as well as small and medium-sized enterprises. 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 materializing several of the quests for innovating management education advanced in Chapter 1 (Wenzel, 2022). 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.

And yet, some of the contributions do reflect attempts of a more instrumental, hands-on application of management theories and approaches to their cases. This demonstrates that more remains to be done to clarify that management education is, or should be, more than the mere formation of technical skills in using 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 uniquely 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. Meet the future—with IBAE.

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