Five Insights into Intrapreneurship

A Guide to Accelerating Innovation within Corporations
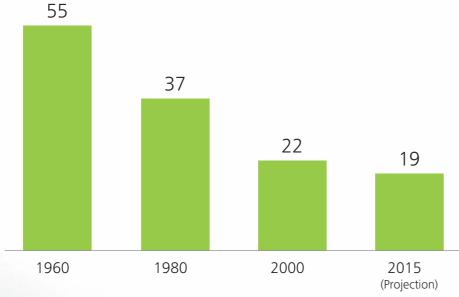
With case studies and interviews with Fraunhofer Venture, Deutsche Telekom and Deloitte Digital Ventures

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88%

of Fortune 500 companies in 1955 are no longer present in 2015

Average company lifespan on Standard & Poor's 500 Index (in years)

1960	1980	2000	2015 (Projection)
55	37	22	19

Data: INNOSIGHT, Richard N. Foster, Standard & Poor's

Introduction

Modern companies face a tough competitive environment. Trends such as Artificial Intelligence, Industry 4.0 or 3D printing require enterprises to innovate continuously in order to remain relevant. However, instead of generating new ideas and striving for new markets, many corporations are focusing on their current fields of activity, optimizing processes and revenue streams in areas of proven success.

This results in potentially disastrous outcomes, as seen in the current composition of the Fortune 500 companies. Almost 88 % of the companies that comprised the list in 1955 are no longer listed some 60 years later because they merged, were acquired or – in most cases – either went bankrupt or are no longer significant (Perry, 2014). Every company should therefore pursue a two-pronged strategy: exploiting and optimizing their current products while harnessing innovation as a cornerstone of lasting growth and profitability. A simple but powerful approach to accelerating innovation is to leverage existing resources within a company: its employees.

This white paper guides corporations in understanding the concept behind intrapreneurship and how to integrate it into the DNA of their organizations. Our research includes a series of expert interviews with successful intrapreneurs and corporate innovation managers, analyzing the potential and challenges of intrapreneurship. The outcome is five insights on how to start thinking about intrapreneurship in an organization:

Insight 1: Intrapreneurship describes a people-centric, bottom-up approach to developing radical innovations in-house
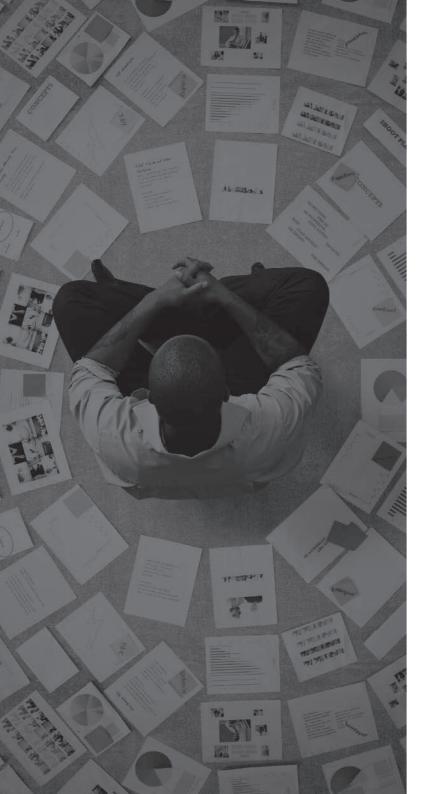
Insight 2: Intrapreneurship pays off many times over in terms of company growth, culture, and talent

Insight 3: It's not about creating intrapreneurs, it's about finding and recognizing them

Insight 4: Intrapreneurs know the rules and break them effectively

Insight 5: Intrapreneurship requires a different management approach

To get a better understanding of intrapreneurship, this white paper also provides two expert interviews from proven intrapreneurs working for major German corporations and a case study of the approach of Deutsche Telekom to establishing intrapreneurship as a constant driver of disruptive innovation within the company. Overall, we aim to provide a roadmap for institutionalizing intrapreneurship so that it becomes an integral part of a company's culture. Only then can the process of continuous innovation take place – allowing the company to grow consistently while retaining entrepreneurial thinkers within the organization.

Insight 1

Intrapreneurship describes a people-centric, bottom-up approach to developing radical innovations in-house

Established corporations are looking for ways to innovate. Historically, the focus often lies outside the organization. Corporations buy, merge, or partner with established innovative companies to increase market share and competitiveness as they often find it challenging to create such radical innovations in-house. Intrapreneurship puts the people of an organization in the center and supports them in creating, developing, and scaling their existing ideas.

Some companies have recently started to build up accelerators and incubators so as to communicate constantly with many early-stage startups in relevant industries. This portfolio approach to venture development is linked to expectations of getting access to teams outside the organization who are able to develop and implement radical innovations. In contrast to this outside-in perspective, the culture inside an organization often does not support radical innovations. This phenomenon is well-known in academia and can be summarized into three common traps (Ahuja & Lampert, 2001):

1. **Familiarity trap:**
   Favoring the familiar over the unfamiliar

2. **Maturity trap:**
   Favoring the mature over the nascent

3. **Propinquity trap:**
   Favoring proximity to existing solutions rather than completely new solutions

This phenomenon also includes R&D labs, which are formally in charge of developing new products but often fail to generate disruptive innovations, instead settling for incremental improvements and driving their employees to optimize rather than innovate. Typically, the hierarchical and inflexible structures within some organizations often ignore or actively suppress ideas that are created bottom-up. Intrapreneurs do not act within these structures. They avoid the organizational core with all its managerial activities centered on existing routines, their repetition, and the efficiency of existing production and support operations.

In academia, intrapreneurship, also referred to as corporate entrepreneurship, describes the entrepreneurial behavior of employees and the development of new ventures within the existing structures of an organization. In contrast to this, entrepreneurship characterizes the entrepreneurial effort outside of the existing organization. Intrapreneurs were first defined by Gifford Pinchot (1984) as "dreamers who do. Those who take hands-on responsibility for creating innovation of any kind, within a business". That being said, the concept relates to an individual who innovates and not to a specific process or department. It is rather a bottom-up approach which relates to individual employees taking an initiative to advance their company as a whole. In order to do so, intrapreneurs operate at the boundaries of organizations, stretching current products, services, and technologies and thus increasing diversification, developing new organizational capabilities, and fostering disruption.

> " The Macintosh team was what is commonly known as intrapreneur-ship… a group of people going, in essence, back to the garage, but in a large company. "
>
> **Steve Jobs,** Newsweek, 1985

When Steve Jobs and a group of twenty Apple employees separated themselves from the remaining organization in order to develop the world-famous Apple Macintosh computer, they operated with complete freedom, often neglecting organizational rules and structures for the sake of their vision. Jobs' and his team's intrapreneurial efforts resulted in radical product and service innovations, an outcome traditional R&D labs often fail to generate.

Insight 2

Intrapreneurship pays off many times over in terms of company growth, culture, and talent

Intrapreneurship fosters proactivity and positions corporations as industry leaders with creative leeway for its workforce. While many employees tend to do their work by the book, corporations with entrepreneurially-minded employees see the benefits – ranging from innovative offerings, increased skills and capabilities, and competitive advantages to cost savings, motivational boosts, and accelerated product and service launches.

1
Elevating the Top Line

Intrapreneurship enables a continous stream of innovation which drives new product and service development. Intrapreneurs consequently strive to implement their ideas and are committed to achieving success. Supporting this attitude within an organization's culture will increase the number of innovations being pursued and adopted, leading to new product and services releases in established and new markets.

2
Breeding Talent

The war for talent has just started. However, many companies fail to foster a source of great talent: intrapreneurs. Supporting existing intrapreneurs and encouraging employees in intrapreneurial thinking and acting will lead to a growing number of high potetials. Having a strong and externally visible focus on these profiles is also essential for attracting talent from the outside who wish to join a company where they can use their entrepreneurial skills within an established organization.

3
Gaining a Competitive Advantage

Intrapreneurs do not operate on the well-established paths of a company. They perform at the edge, circumventing the company's comfort zone, scouting for previously unknown opportunities and markets, and collecting valuable insights into the competitive landscape. Employees working in this kind of environment identify the blind spots – the opportunities and threats which are unseen and might otherwise be missed – and exploit them.

4
Boosting Company Culture

A dedicated intrapreneurship strategy enables the high performers to bring organizations to the next level. Intrapreneurs will help form productive and highly engaged teams, develop other employees, and, as a result, drive impressive growth for the organization. Once initial success stories begin to emerge, this will spawn spectacular employer and employee motivation across the whole organization.

5
Growing Bottom Line

Intrapreneurs adopt an inside-out perspective and leverage available resources to follow their vision. They work outside their daily schedule and need to deal with internal resistance and barriers. With this setting in place, they are forced to operate as efficiently as possible, using the resources already available to them to achieve the best outcome possible. For a company, this behavior is more than desirable.

6
Cutting Time-To-Market

The importance of releasing new products or services for customers cannot be overstated. Yet the speed with which markets are served determines more than ever the success of a company. Intrapreneurs do not over-engineer, they focus on the core, getting a minimal viable product out in order to avoid any circumstance which could harm their intentions. Such thinking decreases development cycles tremendously, getting product launches at rocket speed.

Interview Andy Goldstein

Andy Goldstein is Co-Founder & Executive Director of the LMU Entrepreneurship Center and the German Accelerator. Andy is also Co-Founder & Managing Director of Deloitte Digital GmbH, an entity dedicated to building digital businesses and digital transformation. As serial entrepreneur with 32 years of experience in founding, building, and accelerating companies, Andy sold his software company to the publicly-listed Avanquest Software in 2003, served as COO Europe until 2009 and as a Board Member until 2014. Within Avanquest he founded SoftCity, an internet community for software users.

How did you become an intrapreneur?
Andy Goldstein: I became an entrepreneur in 1983 when I started my first company, North American Software GmbH, and an intrapreneur when I sold my second company, Media Gold GmbH, and with it the know-how and my idea for SoftCity, to Avanquest. The idea for SoftCity was born in the dot-com era, in 2000. During that time I noticed a great opportunity for an Internet community based on contributions from software users. But at the time I had my own company and couldn't implement the idea. Early in 2006 I saw that Avanquest might be able to implement this idea. So I prepared a business plan and presented my idea to the Executive Committee. Initially it was rejected by the majority of the Executive Committee. However, I was able to convince the CEO to become a sponsor for the project. He pushed the idea until we finally got a small budget. I'm certain that my idea would not have been implemented if the CEO had not been absolutely committed to it.

What made the rest of the management team change their mind?
Andy Goldstein: Three things happened almost at the same time. First, there was great interest in SoftCity from people outside of the company. Second, they became aware that our customers bought less and less in the store around the corner. Third, our online business grew significantly within a short period. We were questioning our innovativeness. This is why SoftCity was given a chance.

How did you implement the idea within the company?
Andy Goldstein: At first, SoftCity was started as a project within Avanquest where we quickly created an effective team. Luckily, a member of the board who founded his own company formed a joint venture with us and took over the programming of SoftCity. Before we started the actual development of SoftCity we made a very important decision by founding a separate entity. We just knew that SoftCity would not work if our office would be in the same building as the parent company.

What resources/support in particular did you get from Avanquest and how did your role change after founding SoftCity?
Andy Goldstein: We got a budget of about half a million Euros to hire a team and build the first prototype. From a personal perspective, my role didn't really change. It was just an addition to the normal work. Also the contract didn't really change, although the company provided me with an incentive package. Today, this has changed and models exist where intrapreneurship is structured in a separate business, with owners who get new or additional contracts and eventually also get an equity stake.

> " I'm certain that my idea would not have been implemented if the CEO had not been absolutely committed to it. "

What was your motivation as an intrapreneur to push through and implement this idea?
Andy Goldstein: I was always thinking about the potential of the company and its position within the market. Ensuring a promising future for the company strongly influenced my motivation. It was clear that only cutting-edge technologies and the constant development of innovative ideas would allow us to remain competitive. But it was also my personality, I guess. You need an internal champion, someone who says, "I want this to happen", who talks with people, sees the project as his "baby" and is given the chance to think out of the box. My philosophy is that once you see that you "can" do something, you naturally want to make it happen.

Case Study UQBATE

Deutsche Telekom AG is one of the largest European telcos with revenues exceeding €60bn and almost 230,000 employees. The previously state-owned monopoly was privatized in 1996 and is always looking into new ways of innovating. Johannes Nuenning, after 10 years and a variety of positions at the company, thus initiated UQBATE, a program to support employees with ideas for new businesses within the corporation.

UQBATE aims to provide the internal entrepreneurs at Telekom a space to realize their ideas, act freely and without the influence of corporate structures and process-es. It is based around the idea of approaching customers directly and using their feedback to build ventures – first with the support of the corporation, yet ultimately as an independent entity. The program is promoted internally via Nuenning's extensive personal network, small pitch events in different divisions as well as promotion by the management.

UQBATE has evolved significantly in the last four years and nowadays kicks off with an intense, week-long Bootcamp

– the Startup Days – during which teams are formed, ideas are discussed, developed, and pitched at the end. Afterwards, the teams enter a validation and develop-ment phase which also requires them to talk to potential customers and test their hypotheses with actual feedback. This process is accompanied by several gates, each granting additional funding if certain quality criteria are met.

… the teams receive extensive training going through several stages without much funding and are challenged to reach three milestones.

First, they have three to six months to assess actual customer needs through prototyping and interviews. The next half year is spent in determining customers' willing-ness to use and pay by means of a public beta-test with a working product, and finally the teams have up to one year to develop a business model for the idea. At the end, and if all quality gates have been passed, a joint decision is made as to whether the idea will be spun off, integrated into a division, or shut down.

Since the beginning, 400 ideas have been evaluated with over 600 employees taking part in the program. Up to now, seven projects are being actively developed and are currently entering or undergoing a public beta-test phase. Among these are Zuqi - an online platform for special service providers, and MyComoda – a virtual wardrobe. For Deutsche Telekom, UQBATE offers a number of advan-tages. It not only dramatically reduces the cost of the trial and error of new ideas, but it has also been shown to be more than ten times faster than previous initiatives. It pro-duces innovative ideas that generate actual revenue and, last but not least, finds and trains entrepreneurial talent.

The success of the program can mainly be attributed to Johannes Nuenning, who tirelessly promotes it internally and externally. He started UQBATE with the strong belief that people need to be allowed to innovate instead of being ordered to do so. This also includes experiment-ing and subsequently failing, but as early as possible, so that learning outweighs the effort of starting from scratch.

Pinchot's Ten Commandments for Intrapreneurs

1. Work underground as long as you can – publicity triggers the corporate immune system

2. Remember it is easier to ask for forgiveness than for permission

3. Do any job needed to make your project work, regardless of your job description

4. Follow your intuition about the people you choose, and work only with the best

5. Circumvent any orders aimed at stopping your dream

6. Find people to help you

7. Never bet on a race unless you are running it

8. Be true to your goals, but realistic about the ways to achieve them

9. Honor your sponsors

10. Come to work every day willing to be fired

Source: Gifford Pinchot III, Intrapreneuring: Why You Don't Have to Leave the Corporation to Become an Entrepreneur (New York: Harper & Row)

Insight 3

It's not about creating intrapreneurs, it's about finding and recognizing them

Building an intrapreneurial culture is not about 'creating' intrapreneurs - they already exist within organizations, they just need to be discovered and encouraged. A recent study found that more than 20 % of all employees exhibited at least some entrepreneurial activity. Ignoring their efforts or even preventing them from realizing their ideas because they seem different from the normal way of working results in decreasing intrapreneurial activities and less attraction of such talent.

Intrapreneurs do not fit a single profile, but are rather a diverse mix of individuals exhibiting similar entrepreneurial and go-getter attributes. Their motivation is driven by a high level of self-confidence, a striving for autonomy, and critical perspectives, as well as the ability to make decisions despite major uncertainty. This all leads to the strong will to achieve a given task successfully. In addition, an intrapreneur shows advanced networking and problem-solving skills while staying highly flexible as well as persistent in their visionary leadership. This is paired with high risk tolerance, above-average proactivity, and a strong organizational bond.

It is up to the Human Resources department to evaluate these employee traits systematically. With the help of a questionnaire various dimensions can be queried and model entrepreneurial profile derived. While some of these dimensions are tested in an initial assessment, others are reviewed through a manager's evaluation process. Providing an individual's profile to executives enables them to monitor an employee's motivational structure and their abilities to perform at a high level on a daily basis.

Executives need to keep their eyes and ears to the ground to recognize intrapreneurs. Typically, the first step an intrapreneur takes is to identify an opportunity to solve a problem. Most importantly, the responsibility is on management to identify an intrapreneur who is willing and able to run with an idea and make it come alive. The second step is one in which the intrapreneur will test, validate, and follow-up on their own initiative to create at least a sample product or a roadmap to depict which ways the idea can be realized. In the third step there is an assessment by the potential intrapreneur whether the right skills and resources are available to implement the idea successfully. This leads to the question of whether an executive believes in a person's ability to succeed as an intrapreneur or not. If this evaluation is successful and the needed resources are in place, then in the final step the intrapreneur will work to realize their idea, while receiving continuous support and feedback from management.

1. Vision

How do intrapreneurs find their vision?

Intrapreneurs see opportunities where others do not. In fact, they generate ideas and identify ways for improvement without being asked to do so, utilizing their creativity to come up with solutions to complex problems. While this might offer great value for the corporation in the long term, managers and executives are at first often distracted by their daily routines. This creates an environment where they are likely to reject new ideas that would disrupt business-as-usual. Individuals with an entrepreneurial mind-set will circumvent barriers by repeatedly asking for time and resources.

2. Preparation

How does an intrapreneur prepare?

During the preparation period, intrapreneurs sell the idea to the organization, find a top-management sponsor, and convince colleagues by utilizing their large network within the corporation. To further validate the idea, they use the company's resources, sometimes bending the rules to access them quickly.

3. Implementation

How does an intrapreneur implement an idea?

The implementation of the idea is a time where intrapreneurs can shine, making independent decisions, circumventing corporate barriers and bureaucratic hurdles. They focus on the fast implementation of the idea as they know that only visible quick-wins will ensure continuous support and funding of their idea. Here, their leadership skills combined with sound technical and business knowledge is essential.

Insight 4

Intrapreneurs know the rules and break them effectively

There is broad agreement about one common denominator: intrapreneurs are driven by an intrinsic motivation to change the status quo, be it of a specific process, product, or routine. This intrinsic motivation sets them apart from other employees in the corporation. Being motivated to achieve a self-set goal, intrapreneurs not only generate an idea but develop a long-term vision and plan to implement the idea in order to see it blossom.

In order to realize this idea, they do not stop at organizational boundaries, but bend the rules that hinder them from achieving their goals. However, intrapreneurs are not willing to harm their company. They are rather taking calculated risks to achieve their goals. They are aware of the company's economic drivers and, with their efforts, want to support it and the way it provides value to its customers actively. In essence, successful intrapreneurs find a way of aligning their vision with the company's core business. When the Boston Globe newspaper launched its internal startup boston.com, managers were afraid that it would steal content and advertisement revenue. Instead, it succeeded at boosting a Sunday story for the newspaper and from this point on it was accepted at all levels.

Their hands-on mind-set is often combined with a strong business focus and a relationship-building skill set, enabling intrapreneurs to sell their idea actively within the corporation and to implement it themselves. Without such skills, they would lack internal sponsorship and, despite their drive to realize a vision, might fail repeatedly because of powerful upper management. In the end, intrapreneurs are operating within a company, and are thus aware that they will never act as independently as entrepreneurs.

However, this struggle is compensated for by the advantage of having access to their company's resources, most importantly financial, human capital, and existing relationships. This also sets them apart from entrepreneurs, who often do not have immediate access to the required resources. In addition, while intrapreneurs are more prone to risk-taking than other colleagues, they still value the stability and security that is offered by a company. At the same time they are aware that their potential rewards and granted autonomy are limited, since they operate within corporate boundaries. They do not expect huge financial rewards, as they have decided to follow their vision within a company and in parallel to their job with steady pay.

Interview Dr. Thorsten Lambertus

Dr. Thorsten Lambertus is an intrapreneur at Fraunhofer Venture. He is responsible for Fraunhofer's internal accelerator, the FraunhoferDays, and business design activities. He supports researchers in transforming business ideas into business models, following lean start-up and design thinking principles to build interfaces between Fraunhofer and external partners in order to create strong teams and market opportunities based on high technology.

Why do you identify yourself as an intrapreneur?
Dr. Thorsten Lambertus: Being an intrapreneur is having the entrepreneurial personality to develop and implement new things outside of the day-to-day business of a large organization like Fraunhofer. The world of Fraunhofer is a world of researchers that is very structured, particularly at headquarters with a similar structure to the public sector. The challenge I have to tackle is to bring more entrepreneurship to Fraunhofer. With 66 institutes and approximately 24,000 employees, this is an ambitious project which we, as a small team, have built up from the ground.

What was a recent intrapreneurial project that you implemented?
Dr. Thorsten Lambertus: My most recent project at Fraunhofer is the FDays. This event is about how to support ideas efficiently within Fraunhofer's quite rigid hierarchy. In particular it's about the path from idea to finished product. We try to combine our knowledge of accelerators in the entrepreneurial environment with best practices from companies such as 3M, HP, and Google, who have implemented timeout rules, to foster innovation and adapt this model to fit into the Fraunhofer organization.

What are examples of intrapreneurship that you see at Fraunhofer?
Dr. Thorsten Lambertus: Previously the approach at Fraunhofer was that if someone had an idea, he or she got money for it and could continue to pursue this idea. Today we have, thanks to the FDays, a program that is comparable to typical accelerator programs in the entrepreneur environment, but which fits into our institutional world.

How did you establish an intrapreneurial culture at Fraunhofer?
Dr. Thorsten Lambertus: With the FDays we try to cover the backs of our colleagues who have ideas so that they can work and evolve their idea in a defined period of time, usually a 12-week program. Furthermore, we try to provide an "intrapreneur toolbox" to the idea submitter with which they can work as intrapreneurs. This includes, especially, support from top management and the opportunity to be temporarily freed from daily business, as these are the most important factors for innovation. We also support the promotional idea at the institutes. We have people who sit near the institute's management and therefore can support the creators of ideas, because the hierarchy levels under the institute's management are usually very KPI driven, and thus new projects and projects with uncertainty are usually rejected.

In one sentence – what makes intrapreneurs different from the rest of the crowd?
Dr. Thorsten Lambertus: An intrapreneur creates added value on an entrepreneurial path outside of the currently known rules of the organization.

> " In order to succeed, intrapreneurs must sometimes work without complying with rules. Take me for example, I do not break the rules – I bend them. "

You mentioned rules - are intrapreneurs typically rule breakers?
Dr. Thorsten Lambertus: In order to succeed, intrapreneurs must sometimes work without complying with rules. Take me for example, I do not break the rules - I bend them. Sometimes I make decisions which do not comply 100 % with Fraunhofer regulations, but represent my idea well, and thus bring it forward. Sometimes I develop something on a small scale, test it, and if it works, I talk to the next hierarchical level about my idea.

Insight 5

Intrapreneurship requires a different management approach

In this white paper it has been shown that an intrapreneur's skill set and intrinsic motivations strongly differ from the average employee, and consequently they require a different management approach. Current research reveals the seven most important steps that need to be followed in order to create a healthy intrapreneurial environment.

Resources

Employees need time and resources in order to come up with innovations. The most famous example of this is Google's "20 % Rule", in which employees are allowed to spend one day per week on a project that is unrelated to their work. In addition, managers should grant quick access to resources (e.g., capital, machinery, experts), enabling intrapreneurs to validate their ideas quickly.

Communication

Managers should make sure of fostering an open exchange of ideas within the corporation, as well as with external experts, and implement efficient tools such as idea exchange platforms. Additionally, innovation challenges can be created to generate more new ideas quickly.

Support

It is important to show employees that their entrepreneurial behavior is supported and fostered, which includes an open culture in which they are not afraid of sharing their ideas. Each employee should be encouraged to come up with suggestions for incremental improvements, as well as radical concepts. Later on, managers need to provide implementation support in the form of resources and advice to reduce time-to-market and increase the chances for success.

Autonomy and Responsibility

Managers need to offer autonomy, encouraging employees to create independent solutions to challenges instead of adhering to established command lines. Furthermore, control mechanisms and bureaucracy have to be reduced to allow for new processes that make good business sense.

Motivation and Incentives

The motivation of employees is of crucial importance. Since they are strongly intrinsically motivated, financial rewards based on their entrepreneurial performance are important, but not sufficient. Managers have to acknowledge and cherish ideas while tolerating mistakes and failures, in order to further encourage employees in their entrepreneurial endeavors and bind them to the organization.

Compensation

The design of a compensation package should encourage all steps of intrapreneurship, including a combination of short and long-term goals that are aligned with a company's strategy. It should encourage risk-taking (e.g., profit-sharing), but reflect the reality that due to the corporate boundaries the intrapreneur plays in, they have limited influence on the outcome of the venture.

Structure and Processes

Entrepreneurial companies have a decentralized structure, where managers delegate decisions to the lowest possible level to ensure that they are made by those with the most knowledge. In order to increase the amount of knowledge deployed even further, these companies also foster collaboration and cross-discipline projects, improving problem-solving quality and speed through combined experiences.

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