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Salvatore Sciascia

Università Cattaneo-LIUC

Fernando G. Alberti

Università Cattaneo-LIUC

Riccardo De Vita

Università Cattaneo-LIUC, rdevita@liuc.it

Alberto Poli

Università Cattaneo-LIUC

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Exploring the Effects of Corporate Venturing on New Business Creation

Salvatore Sciascia
Fernando G. Alberti
Riccardo De Vita
Alberto Poli

One of the main problems of large firms is that they tend to lose their entrepreneurial orientation (EO) once they have grown. The launch of corporate ventures (CV) has been adopted by managers, and studied by scholars, as the means to create new businesses within large companies with a low level of EO. Extensive research on CV has been carried out to understand how these projects can effectively lead to new business creation. However, there are no studies on the effect of CV projects on new business creation after the project has ended. More specifically, scholars have overlooked the prospect that a CV project may continue to influence new business creation and how this is possible. This article explores how CV projects have an effect on new business creation after they end, if any. The discussion builds on the analysis of the case study of Riso Gallo, an Italian company operating in the rice industry, which developed a CV project between 1988 and 1996 to sidestep a poor EO.

The study of firm-level entrepreneurship, or corporate entrepreneurship (CE), is increasingly central in managerial studies (Dess et al. 2003). CE expresses the entrepreneurial behavior shown by existing organizations that create a new business, here intended as developing a new product, entering a new market or both (Sathe 2003). This behavior could encompass innovation, which means introducing something new to the marketplace (Sharma and Chrisman 1999). CE is one of the main issues in management studies, and much research has been carried out on identifying determinants and outcomes of this phenomenon (e.g., Barringer and Bluedorn 1999; Burgelman 1983, 1984; Guth and Ginsberg 1990; Jennings and Lumpkin 1989; Kanter 1985; Kuratko, Montagno, and Hornsby 1990; Miller 1983; Stevenson and Gumpert 1985; Zahra 1991, 1993). Such a wide research concern is due to the fact that, as a result of globalization, market uncertainty, and new technology, companies need to be very responsive, flexible, and agile (Sauer and Ruddle 2006).

In the field of CE, much research has been done on EO (e.g., Covin and Slevin 1988, 1989, 1991; Lumpkin and Dess 1996; Rauch et al. 2004; Wiklund 1999; Wiklund and Shepherd 2003). EO is a strategic orientation characterized by a tendency to seek product-market innovation as a

source of competitive advantage, a proactive posture in seeking change, and a moderate propensity to take risk (Miller and Friesen 1982). One of the main problems of large firms is that they tend to lose their EO once they have grown; thus the generation and sustainment of entrepreneurship in established companies is one of the main issues in management studies and practices. The launch of Corporate Ventures (CV) has been adopted by managers, and studied by scholars, as the means to create new businesses within large companies with a low level of EO. CV refers to “corporate entrepreneurial efforts that lead to the creation of new business organizations within the corporate organization” (Sharma and Chrisman 1999: 19). Extensive research on CV has been carried out to understand how these projects can effectively lead to new business creation (e.g., Block and MacMillan 1993; Burgelman 1983; Campbell et al. 2003; Chesbrough 2000; Kanter 1985, 1989; Kanter and Richardson 1991).

However, no studies exist on the effect of CV projects on new business creation after the project has ended. More specifically, scholars have overlooked the prospect that a CV project may continue to influence new business creation and how this is possible.

This study explores how CV projects have an effect on new business creation after they end. The discussion builds on the analysis of the case study of Riso Gallo, an Italian company operating in the rice industry. Riso Gallo developed a CV project between 1988 and 1996 to sidestep a poor EO.

The article offers a new way of thinking about the relationships between the concepts of new business creation, EO and CV, showing how CV projects not only have the main intended effect of allowing the company to create new businesses in the short run, but also have a collateral emergent effect in influencing new business creation after their end through the sustainment of parent company EO. This effect is made possible by the activation of an organizational learning process within the parent company. This learning process is oriented to the development of integrative, rather than technical, knowledge.

This article begins with a literature review on EO and CV to highlight the research gap and to develop the research question. It is followed by a methodological section, where

the research design, data collection, and data analysis are presented. The next section is devoted to the case study discussion with the lenses of EO and CV literature. The article concludes by discussing main findings, contributions, and possible future development of this study.

Theoretical Review

Research into the nature, antecedents, and effects of CE, here intended as new business creation within established organizations (Sathe 2003), has been rapidly growing during the last two decades (Ferreira 2001). Despite the development of the field, evidence supports the fact that scholars have not been consistent in attaching a label to the phenomenon they purport to study (Wiklund 1998). Labels such as entrepreneurship (Miller 1983), corporate entrepreneurship (Zahra 1991; Zahra and Covin, 1995), intrapreneurship (Kuratko et al. 1993; Kuratko, Montagno, and Hornsby 1990; Pinchot 1985), entrepreneurial posture (Covin and Slevin 1991), entrepreneurial intensity (Morris and Sexton 1996), and entrepreneurial orientation (Lumpkin and Dess 1996) have been used. Different labels have often been used to describe similar phenomena, and different concepts have been expressed with the same word. This section aims to clarify such a terminological confusion through the definition of the key concepts of this study: EO and CV. The literature review on the two concepts will highlight the research gap to be addressed.

Entrepreneurial Orientation

The construct EO is receiving increased attention in the field of entrepreneurship, as it is believed to be at the heart of entrepreneurial strategy making (Dess, Lumpkin, and Covin 1997). EO is a type of strategic orientation. Strategic orientations are underlying philosophies that support the overall decision-making process and create an internal environment in which desired behaviors are supported and encouraged (Miles and Arnold 1991). In other words, strategic orientation is the business dimension that describes the factors driving the firm's formulation of strategy. Miller and Friesen (1982) identified two types of strategic orientations (or strategic postures): conservative and entrepreneurial. The conservative posture leads companies to pursue innovation only reluctantly, tending to emphasize existing routines and to formulate strategy driven by currently controlled resources (Stevenson and Gumpert 1985). Strategy in the entrepreneurial posture, on the contrary, is characterized by a tendency to seek product-market innovation as a source of competitive advantage, a proactive posture in seeking change, and a moderate propensity to take risk. A company is characterized by an EO when the firm's formulation of strategy is driven by the perception of opportunities (Stevenson and Gumpert 1985).

Thus EO is a multidimensional construct encompassing firm innovativeness, proactiveness, and risk taking. Innovativeness refers to the supportive tendency toward new ideas, novelty, experimentation, and creative processes, while departing from established practice (Lumpkin and Dess 1996); proactiveness is the propensity to anticipate and act on future market needs (Lumpkin and Dess 1996); risk taking is the willingness to commit large amounts of resources to projects characterized by highly uncertain outcomes (Miller and Friesen 1982).

We stress the difference between CE and EO. CE is a behavior, the content of the strategic choice (i.e., new business creation). EO is instead a determinant of CE: if high, it leads to new business creation. Such a distinction is still not clear in literature (Wiklund 1998), where the two concepts are often confused: several authors make reference to CE when they study EO. In fact, EO is difficult to measure; this explains why EO is usually measured by observing entrepreneurial behavior.

A company EO mirrors Stevenson and Jarillo's (1990) concept of entrepreneurial management, as "it reflects the organizational processes, methods and styles that firms use to act entrepreneurially" (Lumpkin and Dess 1996: 139). They shape a firm's overall capability to act in an entrepreneurial way, getting organizational members to create change and develop something new. This means that indicators of EO are those organizational features (structure and processes) helping organizational members to spot entrepreneurial opportunities.

Perhaps the most recurrent theme among scholars interested in EO concerns its positive implications on firm growth and performance (Dess, Lumpkin, and Covin 1997; Wiklund 1998; Zahra, Jennings, and Kuratko 1999). Indeed, EO is regarded as the *sine qua non* of firms that seek to succeed in today's volatile and extremely dynamic business environment (Wiklund and Shepherd 2003). Innovativeness, in its double form of product-market innovation and technological innovation, is an important component of firm competitiveness and success, as it represents a fundamental way for firms to pursue new opportunities (Lumpkin and Dess 1996). The firms' ability to seize and act on opportunities (proactiveness) has positive performance implications (i.e., first mover advantage; Barringer and Bluedorn 1999). In today's uncertain environment, managerial support for risk-taking strategies has proven successful, especially in the long run (Wiklund and Shepherd 2003).

Corporate Venturing

All the major companies have been entrepreneurially oriented at the beginning of their life cycle; however, as a start-up grows and matures, administrative practices suffocate the EO of the company. CV practices are often introduced to allow the company to be innovative in spite of a clear deficiency in

EO. To use a metaphor, if entrepreneurship is the “heart” of a company, CV has been often used as a “bypass” that can make the company innovative despite a loss of EO. The need for such a bypass was already indicated by Drucker in 1974: “The search for innovation needs to be organizationally separate and outside of the ongoing managerial business. [...] One cannot simultaneously create the new and take care of what one already has” (p. 799).

CV refers to “corporate entrepreneurial efforts that lead to the creation of new business organizations within the corporate organization” (Sharma and Chrisman 1999: 19). According to Block and MacMillan (1993), a project is a CV when it (1) involves an activity new to the organization, (2) is initiated or conducted internally, (3) involves significantly higher risk of failure or losses, (4) is characterized by high uncertainty, (5) will be managed separately at some time during its life, and (6) is undertaken for the purpose of increasing sales, profit, productivity, or quality. The outcome of a CV project consists in the development of “newstreams” (Kanter 1989), new areas of activities able to generate new flows of revenues, additional to the revenues generated by the “mainstreams,” or current areas of activities.

CV can be classified either as external or internal. External CV refers to “corporate venturing activities that result in the creation of semiautonomous or autonomous organizational entities that reside outside the existing organizational domain” (Sharma and Chrisman 1999: 19). Internal CV refers to “corporate venturing activities that result in the creation of organizational entities that reside within an existing organizational domain” (Sharma and Chrisman 1999: 20).

According to Kanter and Richardson (1991) four different types of CV programs can be identified: the “pure venture capital model,” which invests in companies started outside the parent company; the “new venture development incubator,” which manages ventures as independent entities, spawned either internally or externally; the “idea creation and transfer center,” which develops “newstreams” but passes them on to established operations to exploit; and the “employee project model,” a more entrepreneurial variant of employee involvement or suggestion programs.

As reported by Block and MacMillan (1993), in the 1960s and early 1970s, 25 percent of the Fortune 500 companies had a CV program. They were largely disbanded during the late 1970s. In the first half of the 1980s, corporations renewed their interest in CV and lost it again in the 1990s (Chesbrough 2000). During the dot-com boom, many large firms turned to CV, as in the cases of Ericsson, Nokia, Intel, Roche, Marks, and Spencer. According to Campbell et al. (2003), CV investment levels fell by 75 percent between 1999 and 2003, and many venturing units closed down, witnessing the existence of kind of “CV life cycle.” This contradicting history behind CV has made his study fascinating and challenging.

Research on CV has been carried out largely to understand the main factors determining the success of this kind of project, therefore adopting the venture perspective. Roles and activities have been studied within CV projects to identify those factors influencing the success of the process (see Burgelman 1983; Block and MacMillan 1993; Kanter 1985, 1989 as main studies). As a result of research activities, several business cases have been developed—mainly at Harvard Business School—and adopted within management courses all over the world (see Bouchard 2002 for an extensive review): Bell, Lucent Technologies, Nokia, Polaroid, Procter and Gamble, SAS, Siemens Nixdorf, 3M, and Xerox are some of the best known. Literature has remained on a descriptive and teaching level, mainly transferring to readers the experience of these large corporations in CV. More interest in the topic has recently been generated by publishing the research results of two projects carried out respectively by Harvard Business School (Shulman and Stallkamp 2004) and London Business School (Campbell et al. 2003).

Despite the extensive literature, research so far has not explored the effect of CV on future business creation once the CV projects have ended. Thus the following research question is posed: “How can corporate venturing projects affect new business creation after they end, if at all?”

The remainder of this article addresses this question, presenting the results of a case study.

Methodology

Complying with the nature of our research question and the aim of the article, the research design of this study relies on a case study approach (Eisenhardt 1989; Yin 1989), according to which several methods and empirical sources contribute to offer a holistic understanding of the phenomenon. The time span of the present study is 1980–2004. The overall design of the research is anchored around the study of three periods in the history of Riso Gallo: (1) up to the launch of the CV project called “Naturis” (1988); (2) the period between the launch and the end of the CV project (1988–1996); (3) after the end of the CV project (1996 onwards). The point of studying a set of periods longitudinally in time (Pettigrew 1979) is that they provide a transparent look at the evolution of the phenomenon of interest. For each period, we checked for triangulation of different data sources to obtain more robust evidence (Jick 1979).

The data collection process started in May 2002, with a retrospective data collection from 1980 to 2002. Data sources are reported in Table 1. Primary sources included semistructured interviews with the top management of Riso Gallo and Naturis. Nine interviews were conducted for a total of 18 interview-hours. Direct observation complemented data collected through interviews. Secondary sources included artifacts and documents from Riso Gallo and Naturis

Table 1. Case Study Data Sources

I. Primary Data

I. a. Interviews

- 1 - Mario Preve, Riso Gallo President (1 interview, 2 hours)
- 2 - Cesare Preve, Naturis President (2 interviews, 2 hours)
- 3 - Flor Piepp Romero, Naturis R&D Manager (1 interview, 2 hours)
- 4 - Nicoletta Ballardore, Naturis Area Manager (1 interview, 2 hours)
- 5 - Daniele Bellucco, Naturis Accounting and Logistic Manager (1 interview, 2 hours)
- 6 - Claudio Carriere, Naturis Production Manager (1 interview, 2 hours)
- 7 - Francesco Rocchi, Naturis Managing Director (2 interviews, 2 hours)

I. b. Direct Observation

- 1 - Factory tour: Robbio plant, Riso Gallo office
- 2 - Factory tour: Rovigo plant, Naturis offices
- 3 - Personal contacts: Mario and Cesare Preve, outside the research setting

II. Secondary Data

II. a. Balance Sheets

- 1 - Riso Gallo Balance Sheets (1997-2003)
- 2 - Naturis Balance Sheets (1997-2003)

II. b. Data on the rice industry

- 1 - Market survey on rice consumption in Italy ("Indagine integrata sul consumo di riso in Italia"), carried out by Enterisi, February 2001
- 2 - Rice: evolution of the market and its perspectives ("Riso: evoluzione di mercato e sue prospettive"), carried out by Enterisi, 29th October 2002
- 3 - Analysis of the Italian market of rice (June/July, 2003), carried out by Enterisi, August 2002

II. c. Internal reports

- 1 - Naturis budget 2004
- 2 - Naturis - "From quick cooking rice to innovative food ingredients," (Description of the evolution of Naturis strategy), June 2003
- 3 - Naturis marketing mix (strategic guidelines for marketing activities)

II. d. Websites

- 1 - www.naturis.it
- 2 - www.risogallo.it
- 3 - www.riviana.com
- 4 - www.riceweb.org (International Rice Research Institute)
- 5 - www.enterisi.it

II. e. Press releases

- 1 - Riso Gallo press release, 2001-2003
- 2 - Naturis press release, 2001-2003

II. f. Articles in newspapers and magazines

- 1 - "Riso Gallo: un anno di novità per il leader del mercato risiero" - Largo Consumo, October 1995
- 2 - "Riso Gallo" - Largo Consumo, October 1996
- 3 - "Sementi fatte in casa" - Il Sole 24 Ore, January 1997
- 4 - "Riso Gallo, il piatto si fa più ricco" - Il Sole 24 Ore, January 1997
- 5 - "La Riso Gallo riscopre le antiche varietà cinesi" - Il Sole 24 Ore, October 1999
- 6 - "Riso Gallo innova il mercato" - Mark Up, April 2000
- 7 - "Tutti ricchi i chicchi di F&P (Riso Gallo)" - Mark Up, December 2000
- 8 - "Riso pronto senza cucinare" - Tecnologie Alimentari, January/February 2002
- 9 - "Riso per ogni esigenza" - Surgelati Magazine, January/February 2002
- 10 - "La cottura che tiene e il piatto già pronto" - Il Sole 24 Ore, April 2002
- 11 - "I chicchiricchi della quarta generazione" - Il Sole 24 Ore, April 2002
- 12 - "Riso speciale precotto per insalate" - Food Industria, May 2002
- 13 - "Riso pronto Naturis" - Locali Top, May 2002
- 14 - "Oggi l'insalata di riso si fa senza pentola" - Fuori casa, May 2002
- 15 - "Risò, pronto senza cottura!" - Food Machines, May/June 2002
- 16 - "Naturis gioca con l'acqua" - Mark up, June 2002
- 17 - "Il nuovo riso che rinviene in acqua fredda" - Bar Giornale, June 2002
- 18 - "Pronto senza cucinare il Risò di Naturis" - AL, 9, September 2002
- 19 - "Arriva il riso supersprint" - Burda, October 2002
- 20 - "Risò, il riso facile" - Nautica, October 2002
- 21 - "Tecnologia naturale" - Food Machines, July/August 2003
- 22 - "La Naturis di Rovigo regina del disidratato" - Il Sole 24 ore, October 2003
- 23 - "E io vendo riso ai Cinesi" - Panorama Economy, July 2006
- 24 - "Questioni di famiglia? No, di qualità" - Economia & Management, July-August 2006

II. g. Books

- 1 - G. de Felice "150 anni di chicchiricchi" - Riso Gallo S.p.A.

II. h. Pictures

- 1 - Photographic materials realized by Naturis Press Office and Weber Shandwick Italia

archives, catalogs, news clippings, journal and magazine articles, books, annual reports, budgets, and plans.

Data analysis followed an interaction process between theory and empirical evidence (Miles and Huberman 1994). We went back and forth between data and literature to interpret data collected and develop our findings. Data analysis followed a six-stage interaction between theory and empirical evidence. In the first stage, secondary data were collected to get a general overview of the case and evaluate its suitability for a study on CE. In the second stage we carried out interviews to verify the validity of data collected. After this, we started to analyze the relevant literature on CE with a major focus on EO and CV, obtaining a theoretical framework for continuing information acquisition (third stage). After a few months we completed our information gathering process, interviewing members of the management team of the parent company (i.e., Riso Gallo) and the CV project (i.e., Naturis) in their operating setting, and visited the companies for direct observation (fourth stage). Subsequently, we engaged in an iterative process (fifth stage) in which we went back and forth between data and literature to interpret data through the lenses of the literature. This brought us to the sixth stage, in which we developed a new way of thinking about the relationship between the concepts of new business creation, EO and CV.

The case study is presented dividing our analysis into three different periods:

1. Riso Gallo up to 1988;
2. Riso Gallo between 1988 and 1996: the launch of Naturis; and
3. Riso Gallo after 1996.

Case Analysis and Discussion

Riso Gallo up to 1988 (period 1)

Riso Gallo is a well-known Italian company that employs 150 people and has been operating in the rice industry for 150 years. Today it holds the Italian market leadership thanks to a market share of 26.2 percent that reaches a peak of 35 percent in the parboiled segment. In 2004 the company processed 120,000 tons of rice for a turnover of 100 million. The company plays an important role in the international market as well. Riso Gallo is part of an international group with subsidiaries in France, Switzerland, and the UK. More than 30 percent of Riso Gallo's production is exported all over the world, even to China and Japan. Riso Gallo is a family business, run since its foundation by the Preve family. The company CEO is Mario Preve, well known on the Italian press for being successful in such a mature industry.

Riso Gallo started its activities producing rice, a traditional product in the world diet. The company was founded in 1876 in Genoa. After some years it moved to the Pavia area in north-west Italy. This area has been well known for its rich variety

of rice since the Middle Ages. Riso Gallo used to sell its rice mainly in the north of Italy until the early 1950s. Then the company gradually expanded its market in the rest of Italy during the 1950s and the 1960s. The 1970s were characterized by the appointment of Mario Preve as company CEO in 1973, when he was 32 years old. Riso Gallo then had to face the Italian market decline and this led to market expansion in the rest of the world and to the need to develop entrepreneurial activities. Among the main innovations introduced by Riso Gallo, we may mention the introduction of parboiled rice in 1978. This kind of rice, commonly used nowadays, cooks more quickly than the regular one and keeps its consistency even if overcooked. These features are due to a technical treatment based on boiling, evaporation, and drying. This technology was not developed by Riso Gallo but was copied and adopted by the company. A company supplying the U.S. Army already produced parboiled rice in the United States. Nevertheless, the Preve family had the vision to apply this innovation to the Italian domestic market, thus reducing the common difficulties found in cooking rice properly. The Preve family acquired the innovative technology from the United States and started to sell parboiled rice. Nine years later, in 1987, Riso Gallo developed this technology further and launched "5 minutes," a kind of rice that can be cooked in only 5 minutes, one third of the cooking time of regular rice. The development of the technology was carried out within the production department, given that the company had no specific human resources dedicated to research and development. No formal research and development (henceforth R&D) procedures and budget were established at that time.

To summarize, before 1988 the company EO was low, resulting in very few new business creations based on imitation (only two innovations introduced in 112 years).

The adoption of this new technology brought about a slight growth in rice consumption, but the maturity of the industry was still evident. There was the need to develop a greater innovation to revitalize the market, but the management was aware of the fact that the company did not have the potential for that since its EO was low.

Riso Gallo between 1988 and 1996: The Launch of Naturis (period 2)

In the following years, given the market potential for fast-cooking rice, Riso Gallo decided to invest in this research line. In 1998, during an international food exhibition, Mario and Cesare Preve met Mario Gehring, a food technician, who was exploring the potential of dehydration for fast vegetable cooking at Puccinelli, the micro-firm he was working for. In 1998 Riso Gallo and Puccinelli decided to set up a joint venture called Naturis. It has been run since its foundation by Cesare Preve, the brother of Riso Gallo's CEO. A great deal of autonomy was given to the corporate venture to develop the

technology and apply it to rice to introduce a new product to the market.

Naturis was conceived as being a research-oriented company, organized to be ready to spot innovation opportunities. More precisely, Cesare Preve set up a venture characterized by a low level of formalization, no formal rules, continuous experimentation, and the explicit request for workers to abandon procedures and introduce variations in their operations. Power was delegated to all the relevant players in the company. Each person operating in Naturis was called on to contribute to the recognition and exploitation of opportunities. The remuneration system was based on the capacity of employees to create value: employees were rewarded for developing new ideas.

Naturis was structured in an organic way. To expand the possibilities of opportunity identification and to perceive any change in the external environment, Naturis promoted the development of a department devoted to the continuous scanning of the environment and the interface with Riso Gallo.

At the same time, within Naturis, Cesare Preve acted as a system integrator; he was involved in all the activities of the company, thus reducing barriers between departments. Moreover, he organized frequent, and apparently redundant, meetings aiming at creating commitment among all the employees. Additionally, a strong communication system was developed: Cesare Preve imposed a system of regular information reporting, so that everyone in the venture could be informed about the activities taking place in other departments.

In seven years Naturis was able to develop a new product for Riso Gallo that was launched in 1996: "Chicchi Conditi" (flavored grains), a line of "ready to cook" risottos. This product, which can be considered the main innovation of Riso Gallo, consists of a box of filled rice grains that, once cooked, turn into a perfect risotto. This means that the consumer just has to boil the product to obtain a meal, instead of spending time in a complicated cooking operation. The rice grain is filled during the production process thanks to its dehydration at specific temperature and pressure conditions.

Riso Gallo was able to introduce a very innovative product that relaunched rice consumption, opening up a brand new "ready to cook" risotto market. This innovation offers great value-added to consumers, allowing them to create a risotto more easily than ever before. The launch of this innovation was made possible thanks to the development of Naturis, a CV project that allowed Riso Gallo to create a new business despite a low level of EO.

Riso Gallo after 1996 (period 3)

Riso Gallo ended its CV project at the beginning of 1996, when Naturis became independent and was sold to Cesare Preve. Naturis, once autonomous, acted to explore the potential opportunities related to the dehydration process, thus

identifying new uses for precooked dehydrated rice besides the possibility of being filled. Naturis now operates in several business segments of the food industry, such as bakery, dry food mix, and frozen food. Recently Naturis has started selling its products directly to the end-user. "Risò" was launched on the consumer market in 2002: it is the first rice that can be prepared by just resting in cold water so that rice dishes can be prepared without heating elements or ovens.

After 1996, despite the end of its CV project, Riso Gallo seemed to be more entrepreneurially oriented than ever before. While completing and refining existing product lines, Riso Gallo developed a wide range of new products in the years following the end of the Naturis project, continuing to act in a very entrepreneurial way. "Risottate," an innovative risotto that can be cooked in the pan instead of being boiled, was launched in 2000. A year later Riso Gallo introduced "Arancini Siciliani," frozen fried rice balls. In 2004 Riso Gallo launched "Risotto Espresso," a risotto that takes 2 minutes to cook in the pan or in the microwave oven.

All these new businesses were created within Riso Gallo itself, without leveraging on its CV project any longer. Compared to the past, Riso Gallo's EO appeared greatly enhanced. This was witnessed by a few organizational changes introduced in the second half of the 1990s. Above all, Riso Gallo put its key employees in positions to better detect opportunities, rewarding them adequately. In particular, Riso Gallo established an R&D department in 1996, led by the former production manager and composed of six technicians totally dedicated to the research and development of new products. The R&D department was put at the heart of the company to be responsible for the future development of Riso Gallo. Human and financial resources are now allocated daily to projects of new business creation. The research input usually comes from the sales and marketing (S&M) department that identifies a customer problem or need. This is then passed to the R&D department, where a project leader is chosen from among the six researchers and a research team is built to find a technically feasible solution. During this phase the R&D team sometimes works with university partners and/or private research centers. Then, all the other departments are called on to evaluate the solutions proposed by the R&D department during meetings of the so-called "new product development committee." This committee means that the process of new product development is iterative among departments, so that any new business is an expression of the entire company.

The creation of the R&D department was not the only organizational change enacted by Riso Gallo. In 1996 the S&M department was divided into two parts and the two sons of Mario Preve were appointed to the management: Carlo to the Italian S&M department, while Riccardo to the overseas S&M department

In 1997, a more integrative communication system was adopted: a virtual knowledge area where information and data could be shared. Departments can now communicate faster and better, sharing files in real time, thus favoring knowledge sharing for faster opportunity recognition and for overcoming the problems related to its exploitation. Also starting in 1997, the remuneration system has been based on the capacity of employees to create value: employees are rewarded (up to the 20% more) for developing new ideas presented to the S&M department.

A greater integration among organizational departments has been developed as well. In 1999, the so-called “integration committee” was established to allow departments to interface better. Top managers of the different departments meet every two weeks to share ideas, problems, and experiences. The top management recognizes the need for a more intensive knowledge exchange to generate new business ideas better and faster.

All these changes did not lead the company to become more formalized, as can happen in growing firms. The top management recognized that formalization could obstruct the development of new business ideas. At the same time room was left for decentralization: the split of the S&M department into two different departments, the entrance of Mario Preve’s sons to the management team, the establish-

ment of the R&D departments, and the participation of every department in the R&D process bear witness to this concern. Decentralization was pursued on the basis of the assumption that it allows the most knowledgeable people to help the firm to innovate and anticipate future customer needs.

Findings and Conclusions

The case study analysis can be summarized as represented in Figure 1, where arrows express a positive relationship between concepts.

Before 1988, a low level of new business creation characterized Riso Gallo, since only two innovations were introduced in 112 years on the basis of imitative practices. This was due to a low level of EO: the company’s strategic orientation appeared to be more conservative than entrepreneurial.

During the second period, given the need to face the evident maturity of the rice industry and the low level of Riso Gallo’s EO, the company deliberately decided to set up a CV project (i.e., Naturis) to create new businesses. In eight years, a new business was developed thanks to the entrepreneurial efforts of Naturis.

In the third period the company was no longer characterized by the presence of a CV project, but its level of new business creation still remained high, with three new products introduced in 10 years. This was due to the fact that Riso

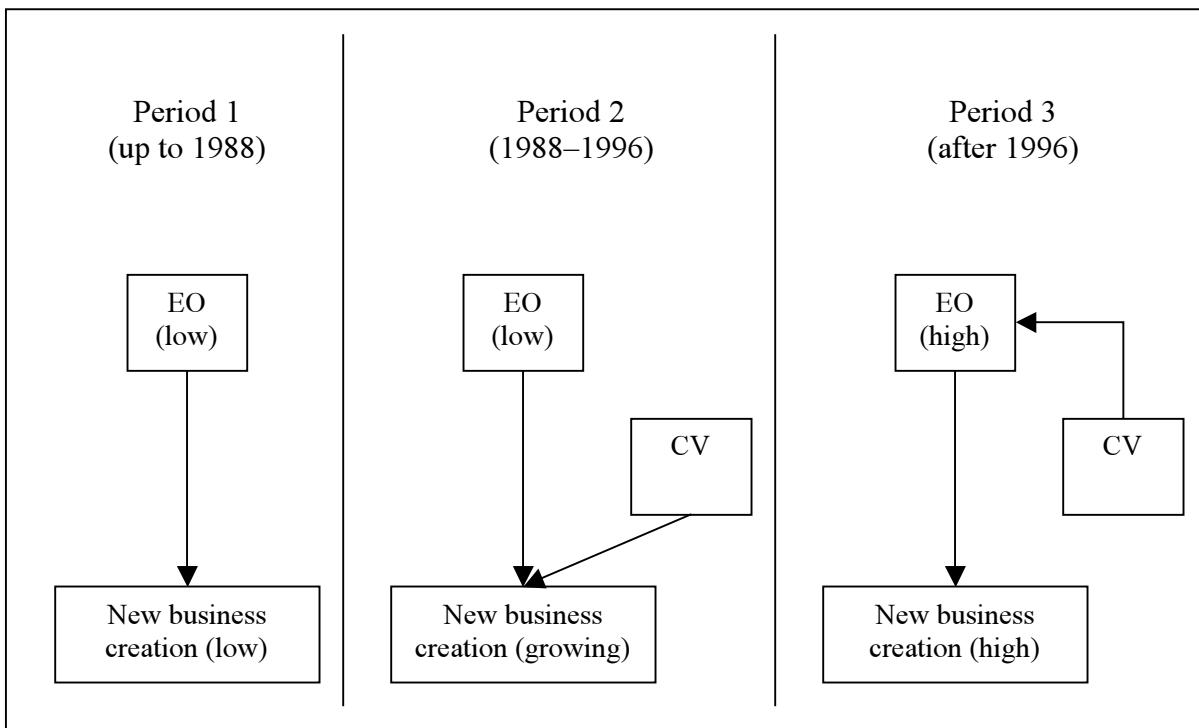


Figure 1. Entrepreneurial Orientation, Corporate Venturing, and New Business Creation in Riso Gallo (Personal Elaboration)

Gallo developed a high level of EO. We argue that the CV project played a strong role in developing the EO of Riso Gallo thus pushing the company toward future business creations and being a point of reference for changing strategic orientation. Mario Preve became aware of the need to be entrepreneurially oriented during the second period and then, during the third period, gradually developed Riso Gallo's EO, learning from Naturis how to be more entrepreneurial. He pushed his company toward an organizational learning process that allowed Riso Gallo to develop new knowledge, thus changing strategic orientation.

This learning process can be defined "experimental," since it occurred within the corporate context and generated distinctive knowledge. It differs greatly from "acquisitive" learning, that takes place when the firm gains access to and subsequently internalizes preexisting knowledge from its environment (Zahra, Nielsen, and Bogner 1999). Competitive advantages evolving from experimental learning tend to be more sustainable than those generated from acquisitive learning (Lei, Hitt, and Bettis 1996). The result of this learning process was the development of integrative knowledge, which is related to the way a company combines its resources and capabilities to create value. It differs from technical knowledge, which is concerned with insights about the properties of specific activities and is needed for new business creation in the short run (Kogut and Zander 1992). Technical knowledge is related to products, while integrative knowledge is related to organization. Riso Gallo learned how to shape its activities to further integrate its resources and competencies in novel ways. The learning process was not only related to the R&D activities, but encompassed the entire organization in terms of structure and mechanisms, afterwards oriented to new business creation.

We believe that much of the success of the above-mentioned learning process was also due to the fact that the parent company was a family business and that the leadership of its CV was given to a family member. The relationship between Riso Gallo and Naturis was more intense and regular than in other CV cases, given that the relationship between the two brothers, Mario and Cesare, was more intense and regular than that between other CEOs. This means that Riso Gallo could have observed the managing practices in Naturis in a closer way, catching every single element of the entrepreneurial management of its CV project that made it so innovative, proactive, and risk taking. The close relationship between Mario and Cesare led Mario to spend much time in Naturis, having contact with Naturis managers and researchers, learning in detail what being entrepreneurially oriented means. Moreover, giving Cesare the possibility of expressing his entrepreneurial spirit in Naturis led Mario to acknowledge the importance of being entrepreneurial and to see how to do it.

We believe that the "family model" of this CV project

solved the trade-off between CV operative autonomy and control: Naturis received the autonomy needed to work on its new business creation project with positive results, but Riso Gallo was able to informally monitor its CV having total access to Naturis' organizational climate and procedures.

Case study results can be then generalized toward theory building. As Figure 2 shows, the main effect of CV consists in developing new business creation in established companies whose EO is low. This effect comes from a deliberate learning process oriented to the development of technical knowledge. Nevertheless, CV could also have a collateral effect, not identified in literature, consisting in ensuring future business creation through a positive impact on the parent company's EO. This second effect is difficult to detect, since it is not evident in the short run. Moreover, it is unexpected and—differently from the main one—it is emergent. The collateral effect comes from an experimental learning process that leads the company to develop new integrative knowledge.

This emergent effect reshapes the relationship between strategy and structure in CE processes. So far, CV has been seen as a deliberate strategic choice oriented toward business creation through the foundation of a new organizational unit. On the basis of the results of the present case study, organizational change can lead strategic orientation to change, through a mimicking process that induces the parent company to learn from its CV project.

We also argue that a CV project, as in the above-presented case, could be used as an effective way to cope with a pervasive force in organization (i.e., momentum). Miller and Friesen (1980) have shown the presence of this force, which means that past practices, trends, and strategies tend to keep evolving in the same direction. A CV project, as in the case of Riso Gallo, can be adopted as a way to stop the administrative momentum and restart, thanks to a new business creation, a new strategic direction guided by entrepreneurship.

This study has explored the effects of a CV project on new business creation, finding that CV can sustain new business creation even after its end, through a positive influence on the parent company's EO. This influence is provided by the activation of an experimental learning process that leads to the development of integrative knowledge. We have shown that CV could foster new business creation more than expected not only directly in the short run, but also indirectly in the long run. Thus the effect of CVs on new business creation after their end is collateral (since it is not the main one), emergent (since it is not deliberate), and indirect (since it comes through a positive impact on EO).

Using the metaphor of the "heart" introduced above, CV appears to be not just a "by-pass," but also a "medicine" able to bring the "heart" back to functioning. In the Riso Gallo case, Naturis helped the "heart" to "beat" again autonomously; that is, it made Riso Gallo become more entrepreneurial.

This article contributes to the development of the firm-level entrepreneurship field, since it studies a phenomenon beyond the usual time span and identifies a new relationship between two core concepts in the research field: EO and CV. Despite extensive research on CV processes, scholars have not investigated the effects of CV projects on new business creation after their end, overlooking the possibility that CVs could play a role in reinforcing the EO of parent companies. At the same time, this study attempts to shed some light on one of the emerging issues in CE: the relationship between CE, organizational learning, and knowledge (Dess et al. 2003). We argue that CV can activate a short-term learning process resulting in the development of technical knowledge, but also a long-term learning process consisting in developing integrative knowledge.

Moreover, the present study opens a new line of research in firm-level entrepreneurship, given that such a relationship between EO and CV has not been even identified before. On the one hand, theoretical research could explore the conditions in which such a relationship exists or not, as well as investigating those factors that moderate the relationship itself. On the other hand, future empirical research on these topics may assess the proposed conceptual relationship in the empirical domain. To this end, further in-depth case studies may allow us to further refine the proposed relationship, while survey studies may develop and test hypotheses from our suggestion. Further empirical evidence will help the development of practical fallouts for managers to use CV projects not just to overcome low levels of EO but also to restart the entrepreneurial momentum and foster EO for new business creation.

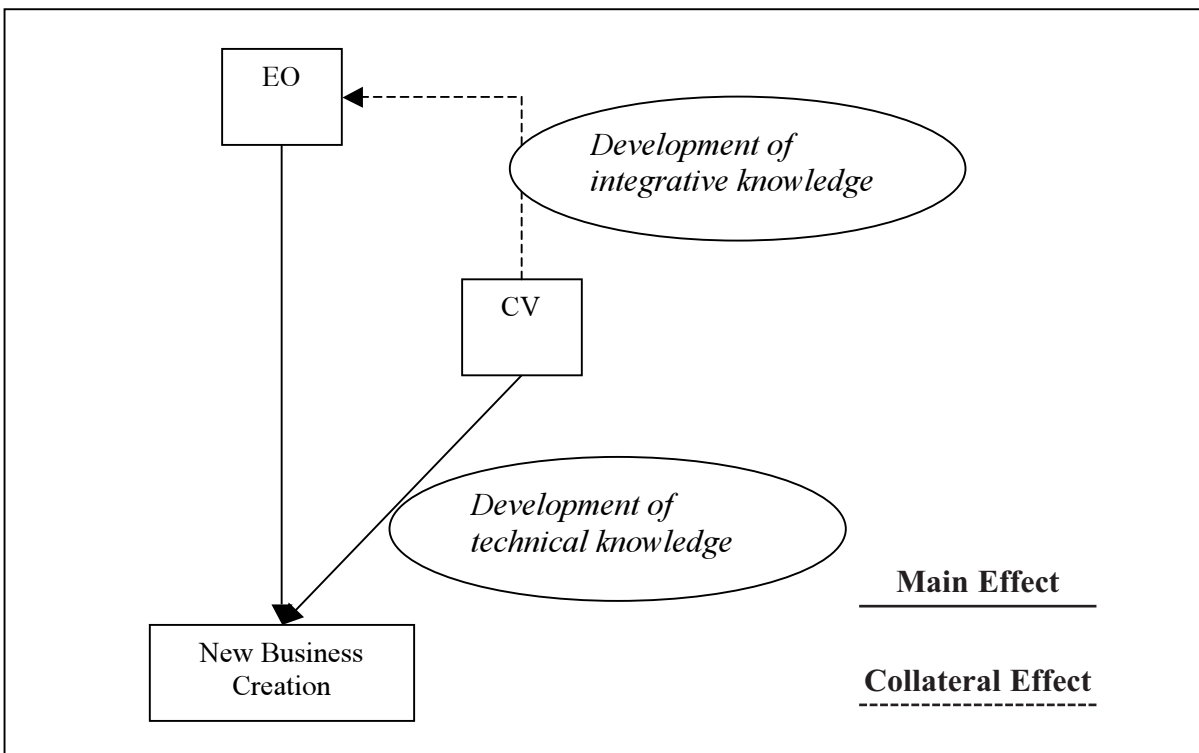


Figure 2. Effects of Corporate Venturing on New Business Creation and Entrepreneurial Orientation as Learning Processes (Personal Elaboration)

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About the Authors



SALVATORE SCIASCIA, Ph.D., teaches strategic management at both Università Cattaneo-LIUC in Castellanza and Università IULM in Milan (Italy). His research interests fall within the field of entrepreneurship, family business and regional development.



FERNANDO G. ALBERTI, Ph.D., is assistant professor of small business economics at Università Cattaneo-LIUC in Castellanza (Italy). He also teaches small business economics at Università degli Studi di Milano Bicocca in Milano and entrepreneurship and regional development at Università della Valle d'Aosta in Aosta (Italy). His research interests fall within the field of entrepreneurship, family business and regional development.



RICCARDO DE VITA (rdevita@liuc.it) is a PhD student in entrepreneurship at Università Cattaneo-LIUC.



ALBERTO POLI teaches entrepreneurship at Università Cattaneo and management control at Università degli Studi di Milano Bicocca. His research interests fall within entrepreneurship education and business planning. He is managing director of Full Integrated System, an outsourcing company based in Milan.