

Learning From Success and Failure in Corporate Entrepreneurship and Organizational Change: A Multi-Case Study of Chinese Companies

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Abstract. This study focused on how Chinese companies effectively learn from success and failures during the corporate entrepreneurship and organizational change process. 9 corporate entrepreneurship cases (6 success and 3 failures) from three diversified Chinese companies were analyzed. A contingency model was revealed that the learning process largely depended on the heterogeneity of corporate entrepreneurship activities. When companies initiated explorations in new and emergent business areas, learning from the others' success was emphasized; When companies only targeted on the improvement and change of the current business, learning from the combination of own success and failures was advantageous; When companies had failure experience in explorative practices, the subsequent corporate entrepreneurship activities (either exploration or exploitation) would benefit from the learning from the failures. Theoretical and managerial implications were also discussed.

Introduction

With the favored governmental policies for the long-term development of Chinese new strategic industries (CNSIs), a great number of Chinese companies have been venturing and moving into the new business, and corporate entrepreneurship becomes an agile and profitable strategy for Chinese companies to conduct the industrial transfer and upgrading. However, setbacks and failures accompany the success during companies' entrepreneurial initiative. Take the example of Chinese solar-panel manufacturing industry, after the golden period during 2005-2009, the industry was badly battered by falling demand in international market since 2010. The former giant company, named Suntech, turned to bankrupt. Worse still, hundred of small followers, whose original business were traditional manufacturing, like textile and glasses, suffered the heavy loss and failure in their pursuit of new entrepreneurial opportunities in emergent industries. Thus, how to achieve sustainability of corporate entrepreneurship becomes an critical question for the Chinese companies.

Literature in corporate entrepreneurship emphasizes the importance the pursuit of entrepreneurial opportunities for the company growth and strategic renewal (Ireland, Covin and Kuratko, 2009; Covin and Miles, 2013). Two distinct but related forms of corporate entrepreneurship are identified: corporate venturing and strategic entrepreneurship. The corporate entrepreneurship practices in Chinese companies is emerging and fast-changing and it is worthwhile to exploring the models and characteristics of Chinese companies' corporate entrepreneurship activities. According to the GEM report (2012)¹, both of the early-stage entrepreneurial activity (TEA) rate and established business ownership rate of China were relatively higher, that reflects the entrepreneurship is booming and active. Moreover, the Chinese economy is also under a transformation of efficiency-driven to innovation-driven. With the statistics of WIPO (the world intellectual property organization), in 2012, the total patent application number of China has topped global patent filling. Hence, during this transition stage, Chinese companies not only need to maintain the growth of the traditional business through efficiency improvement and process optimization, but also to explore new business

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¹ 2012 Global Entrepreneurship Monitor Report, released by Babson College.

opportunities to build new competitive advantages. The theory of ambidexterity (March, 1991; Gibson and Birkinshaw, 2004; Mueller, Rosenbusch and Bausch, 2013) provides a good lens to study the corporate entrepreneurship in Chinese companies.

The successful pursuit of entrepreneurial opportunities is the common goal of corporate entrepreneurship initiatives. However, entrepreneurial activities are always with unknowable outcomes and failures are inevitable among the corporate entrepreneurship process (Shepherd, Haynie and Patzelt, 2013). As the importance of both success and failure experience in the organizational learning process (Madsen and Desai, 2010; Argote and Miron-Spektor, 2011), scholars from the strategy and organizational behaviors areas have investigated different dimensions of success and failure experience in learning process and their positive effects on performance. But there is little attention given to the success and failure in corporate entrepreneurship and how companies learn from success and failure in the process of corporate entrepreneurship.

Therefore, this study would focus on the two issues: the first one is what types and features in Chinese companies' corporate entrepreneurship practices; the second, how Chinese companies learn from the success and failure experience during the process of corporate entrepreneurship.

Purpose of the Research

There are two main purpose of this study: 1) to figure out the main types of corporate entrepreneurship practices conducted by Chinese companies; 2) to map out how the learning from success and learning from failure experience contribute to the in different corporate entrepreneurship activities. In essence, we attempted to determine that whether corporate entrepreneurship is beneficial from the learning from success, learning from failures, or some combination of the two.

Theoretical Background

Corporate entrepreneurship is the lifeline of any firm that seeks to stay ahead of the competition in this fast-paced world (Covin and Miles, 2013). There are various definitions of corporate entrepreneurship and we adopted the definition from Ireland et al., (2009), a strategy of a vision-directed, organization-wide reliance on entrepreneurial behavior that purposefully and continuously rejuvenates the organization and shapes the scope of its operations through the recognition and exploitation of entrepreneurial opportunity. As reviewed by Phan, Wright, Ucbasaran and Tan (2009), there were two major phenomena of corporate entrepreneurship, including corporate venturing (CV) and strategic entrepreneurship (SE). CV focuses on the various steps and processes associated with creating new businesses and integrating them into the firm's overall business portfolio, like spin-offs, Corporate Venture Capital (CVC), licensing, acquisitions and joint ventures. SE involves the identification and exploitation of opportunities, while simultaneously creating and sustaining a competitive, including strategic renewal, sustained regeneration, domain redefinition, organizational rejuvenation, and business model reconstruction. Several literature reviews (Ireland, et al., 2009; Phan, et al., 2009) contended that further studies should examine the characteristics and heterogeneity of entrepreneurial activities in established corporations in different contexts.

The very strong rationale piece by March (1991) on exploration and exploitation, highlighted that an organization focused on exploiting preexisting business enhances efficiency while focused on exploring new opportunities accelerates innovativeness. As March (1991) suggests, exploration includes activities such as search, variation, risk taking, experimentation, discovery and innovation, while exploitation focuses on particular activities that reflect refinement, production, efficiency, selection, implementation and execution. Scholars in ambidexterity research applied the lens of exploration and exploitation to look into the organizational process and empirically indicated that organizations pursuing the ambidexterity are more profitable and successful (Gibson and Birkinshaw, 2004; Mueller, et al., 2013). Thus, we utilized the ambidexterity perspective to categorize models of the corporate entrepreneurship.

Experience is fundamental to organizational learning and scholars tried to characterize experience at a fine-grained level among various dimensions (Argote and Miron-Spektor, 2011; Shepherd, et al.,

2013). Lots of studies have empirically figured out the importance of two types of experience, including success/failure and direct/indirect, could improve organizational performance. The study on the contingent effect of different experience has received scholars' attention. Madsen and Desai (2010) investigated the orbital launch vehicle industry worldwide and contended that organizations learnt more effectively from failures than successes. Moreover, the effect of learning from others' prior failure experience depended on the own failure experience, that only under the condition of organization with significant direct failure experience, learning from others' failure benefited. As concluded, the effect of learning from success and failure is contingent on the current organizational performance and own failure experience.

Based on the above theoretical foundations, we try to investigate how organizational learning from success and failure contingent on the different types of corporate entrepreneurship practices.

Research Method

The research design is a multiple-case study that allows replication logic with each case confirming or not the inferences drawn from the others and (Eisenhardt, 1989). The research setting is entrepreneurial and diversified companies. This study focuses on the corporate entrepreneurship practices, which means it is better to choose the companies that have owned diversified business as the sample. The diversified company is an attractive choice because each entering or venturing in new business that can be examined as a single unit of analysis. This allows nuanced examination of how the companies learn during the entrepreneurial activities.

We studied three entrepreneurial and diversified companies (Table 1). We selected the companies with four main criteria. Firstly, the companies should at least owned three different businesses; secondly, the companies' headquarters locate in the same city (we chose Hangzhou, Zhejiang province), that ensured the same macro and institutional environment; Thirdly, the companies already established the formal managerial system and process, that means the companies would have regular learning practices; fourthly, the companies had suffered failures in the corporate entrepreneurship process. Considering the different companies (i.e., company share structure) would have different action models, which probably impacted the organizational learning process, we chosen the sample companies with totally different share structures and there were respectively private company, state-owned company and university-owned company. In doing so, the generalizability is anticipated to increase. All the data and materials were collected after 2008.

This study relied on three data sources, which included: semi-structured interviews with different-level executives; archival data including corporate documents, annual reports, official press, and website news; emails and follow-up interviews. The primary data source is 45- to 90-minute, semi-structured interviews. Approximately 6 interviews were conducted and two for each company respectively from different informants to provide complementary information on the same events: company-level managers (e.g., CEO) and department-level executives (e.g., sales managers and project managers). With company-level informants, we focused on the company's corporate entrepreneurship history and what was the learning in the process. For the department-level informants, we focused on the how the stuff learnt to function in the new entrepreneurial tasks. Each interview consisted of three main parts: (1) background information on the company; (2) event chronology for a specific corporate entrepreneurship; (3) direct questions related to learning from success and learning from failure in critical activities. Most of questions were open-ended questions.

Results

Consistent with multiple-case analysis (Eisenhardt, 1989), we began by synthesizing the data for each company into individual case histories. These histories describe the chronology, action, success and failure, order of events for each corporate entrepreneurship activity. We tracked the learning process in each activity with a comprehensive, emergent approach that is appropriate for theory generation and theory elaboration using case data. Specifically, we used open- and closed- ended approaches to

assess what were the features of each entrepreneurial activity and how the company learnt from success or failures during the corporate entrepreneurship.

The inductive method was used to analysis data, which is commonly used in case study (Eisenhardt, 1989). Firstly, we made a detailed description of each corporate entrepreneurship activity and displayed in the table (Table 2). Then, we analysis the learning process in each case (Table 3) and after that, we made comparative analysis across cases to figure out the learning model and process in different corporate entrepreneurship (Table 4).

Table 2 shows there are two kinds of corporate entrepreneurship cases, including successful and failures. Table 3 shows learning from success and learning from failures are contingent on different types of corporate entrepreneurship. When companies involve in explorative activities, learning from others success is critical and the main learning sources include industrial leaders, main competitors, strategic partners and professional firms (laws, financial services, global communication and so on). When in exploitative activities, learning from own success and failures is helpful. More specifically, the own successful experiences include operational experience and cooperative experience, and the own failures mainly consist of product development failure, strategy planning failure and daily operational failure. Moreover, when companies have failure experience in explorative activities, the follow-up corporate entrepreneurship activities, no matter exploration and exploitation would benefit from the learning from the own failed explorative experience.

Table 4 summaries the contingent learning process on the two types of corporate entrepreneurship activities. When the activities are exploration-driven, learning from others' success experience is effective for the implementation of the corporate entrepreneurship process. When exploitation-driven, learning from own success and failure is beneficial. Considering the sustainability of corporate entrepreneurship, the cross-case analysis also show when companies have failure experience in explorations, the subsequent corporate entrepreneurship activities (either exploration and exploitation) would benefit from the learning from the those failures.

Implications

The study contributes to corporate entrepreneurship and organizational learning theory in several ways. First, it empirically reveals that the boundary effect of learning from success experience and learning from failure experience, which are contingent on the types of corporate entrepreneurship activities. Although, several recent studies have discussed lots on the effect of learning from experience (success and failure) on organizational performance, little attention is paid to the corporate entrepreneurship process. We argue that learning from others' success experience is beneficial to the explorative corporate entrepreneurship activities, and learning from own success and failures help the exploitative corporate entrepreneurship practices. Secondly, we also investigate the post-value of the failure cases of corporate entrepreneurship activities and figure out that learning from the companies' own explorative failures is useful to the subsequent corporate entrepreneurship activities.

Two managerial implication of this research is also discussed. First, it is critical to identify and to figure out the right learning experience and sources when companies start the corporate entrepreneurship initiatives. Organizational learning from experience, either success or failures, either direct or indirect, is commonly beneficial to the organizational development and performance. However, due to the limits of companies' resources, time, efforts and attention, choosing the right experience could yield twice the result with half the effort. Hence, the managers should not only treat failures and success experience as invaluable learning opportunities, but also carefully select the right experience for the planned corporate entrepreneurship activities. More specifically, others' success experiences benefits explorative actions during the corporate entrepreneurship process while the combination of own success and failure induces exploitative actions. Second, the direct failure experience from the corporate entrepreneurship is of great value, which is regarded as lessons learnt in blood (Maden and Desai, 2010) and has a long-term positive impact on the subsequent corporate entrepreneurship activities. However, learning from failure experience is not easy. Usually, managers' fear of failure impedes the learning process and they draw wrong lessons from the failure

due to the ambiguity of experience. The present study calls the managers to face up the failures and treat them carefully, then start to learn from them.

Table 1 Description of Cases

Company Name	Type	Business	Sales (2012)	Employees (2012)	Year Founded	Informants	Additional Data
Zhejiang Geely Group	Private	Automobile; Car components; Education;	24.6 bn	18,000	1986	Vice CEO; PR manager;	Website, annual reports, press.
Insigma	University-owned	IT services; Eco services; Science park;	0.83 bn	5,125	2001	Vice COO; Project Manager;	Website, annual reports, press.
Zhejiang Railway	State-owned	Railway services; Real-estate; Chemical products;	1.2 bn	5,400	2001	Vice CEO; Financial Manager;	Website, annual reports, press.

Table 2 Description of critical corporate entrepreneurship activities

Company Name	Business Unit	Status	CE type	CE case	Key events
Zhejiang Geely Group	Automobile	Success	(a1) Entering new market	2010, successful acquired Volvo Cars from Ford	<ol style="list-style-type: none"> 2002, the board made a globalization strategy and started to scan the potential high-end automobile brand worldwide; Since then, the executive team would participate the global auto exhibitions every year and look for possible collaborations with the leading company; In 2007, Ford's new president announced the new strategy and planned to sell the several brands, including Volvo Car; In 2008, the company gave a official offer to Ford on acquisition of Volvo; In 2009, the company recruited a professional team (200 experts) to prepare the deal.
	Car components	Success	(a2) Relocate the production bases	2012, started to replan the geographic distributions of production bases	<ol style="list-style-type: none"> Based on the new strategy in 2012, the company decided to change to principle of brand-driven production-base distribution; After that, established a new production standards for all the bases and figured out all the possibilities to improve the existing operation lines; The company upgraded bases to realize 'one base only for cars sharing one platform'. The company emphasized the importance of complementary and distinctive brand structure, and never made mistakes like the case of Haijing.
	Automobile	Failure	(a3) Release of a new model car	2012, the sales of Haijing dramatically declined	<ol style="list-style-type: none"> Before the launch of the car, the company did not have clear market segmentation plan which generated low complementary effect with other brands; During the massive promotion stage, the company did not convey the right message to the customers, which was supposed to manifest the trust and care values as a British style car.

Company Name	Business Unit	Status	CE type	CE case	Key events
Insigma	Science park	Success	(b1) Implementation of benchmark management	2011, launch of benchmark management plan	<ol style="list-style-type: none"> 1. Identified the best practices and captain companies in the science-park business; 2. Paid site visits to the top science-park builders and operators, including Tsinghua University and BSDC; 3. Based on the company's own situations, figured out the key successful factors; 4. Documented the manuals of implementation of benchmark management.
	IT services	Success	(b2) Extension of collaborations with strategic partners	2012, the development of public information services business	<ol style="list-style-type: none"> 1. Strengthen the relationship with Cisco to establish a joint-venture to run the public information services business; 2. Started the cooperations with China Development Bank to get the access to the potential clients from different provincial government; 3. Improved the existing services and raised the scalability.
	IT services	Failure	(b3) The loss of the software contracting project	2012, the loss of a software contracting project from an oversea company	<ol style="list-style-type: none"> 1. In order to get the order, lowered the whole budget which gave limited profit space; 2. The unsuccessful communications with clients during the project and problems resulted from the inter-team collaborations; 3. The extensions of project time. 4. After this event, any of the contracting project should learn the lessons at the starting point of project.
Zhejiang Railway	Real-estate	Success	(c1) Upgrading and transformation of the business model	2011, the beginning of transformation of real estate developer to commercial complex manager	<ol style="list-style-type: none"> 1. 2011, Started to collaborate with Greentown (the largest real-estate company in Hangzhou) to develop several commercial complex projects (the company invested the money and Greentown provided the management); 2. Merged two branch companies, to build a professional company in real-estate industry and to shape a new brand; 3. 2012, the first phase of the project was profitable.
	Railway construction	Success	(c2) Enhancement of quality control	2011, with the guide of company strategy, to purchase the great-lead-forward growth	<ol style="list-style-type: none"> 1. Increased the communications with the Ministry of Chinese Railways and different levels of government in Zhejiang, to ensure the efficiency in different procedures including, planning, financing, constructing and supervising; 2. Chose the competent managers to take charge the local railways constructions; 3. During the daily operation, the workshops on learning from the past railway accidents were organized regularly.
	Chemical Products	Failure	(c3) Investment and expansion in other province	2009, the passive sold out of a new plant in Inner Mongolia	<ol style="list-style-type: none"> 1. After the financial crisis in 2008, the land price decreased; 2. The board made a quick decision to invest in Inner Mongolia through collaboration with a local company (a chemical product distributor); 3. In 2009, when the production line was completed, the partner company offered a buy-out since the economy recovered. 4. Due to the weak influence and lack of either business ties or political ties, had to quit and sold the shares; 5. Although a failure, the board recognized the opportunity seized by the company in the economic fluctuation, and encouraged if consistency with the company strategy.

Table 3 Description of learning process in corporate entrepreneurship

CE Model	CE Types	Learnin from success	Learning from failure
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Exploration-driven	(a1) Entering new market (a3) Release of a new model car * (b1) Implementation of benchmark management (c1) Upgrading and transformation of the business model (c3) Investment and expansion in other province *	(a1) Entering new market - Learning from the global leaders in the automobile industry - Learning from the professional firms (laws, financial services, global communication and etc.,) (b1) Implementation of benchmark management - Learning from the domestic leaders (c1) Upgrading and transformation of the business model - Learning from the competitors	The failure cases of a3 and c3 were emphasized by the executives on the value of the failure experience, and advocated to learn from them.
Exploitation-driven	(a2) Relocate the production bases (b2) Extension of collaborations with strategic partners (b3) Contracting project management * (c2) Railway construction quality control	(a2) Relocate the production bases - Learning from the own successful operational experience in several bases (b2) Extension of collaborations with strategic partners - Learning from the past successful collaborating experience with Cisco (c2) Railway construction quality control - Learning from the cooperation with good partners	(a2) Relocate the production bases - Learning from the own failure experience, including the previous company strategy and the failed product. (c2) Railway construction quality control - Learning from past railway accidents The failure case of b3 was treated as the learning source for the subsequent corporate entrepreneurship activities.

Note: * means the failed case.

Table 4 Cross-case analysis of learning in corporate entrepreneurship

CE Model	Typical Cases	Learnin Process
Exploration-d riven	<ul style="list-style-type: none"> • Entering new market • Introduction of new product * • Implementation of benchmark management • Upgrading and transformation of business model • Investment and expansion in other market * 	<p>Learning from others' success</p> <ul style="list-style-type: none"> - Industrial leaders - Main competitors - Strategic partners - Professional firms <p>The subsequent CE activities also benefit from the own failed explorative experience.</p>
Exploitation-driven	<ul style="list-style-type: none"> • Relocate the production bases • Extension of collaborations with strategic partners • Contracting project improvement • Project quality control 	<p>Learning from own success</p> <ul style="list-style-type: none"> - Operational experience - Cooperative experience <p>Learning from own failures</p> <ul style="list-style-type: none"> - Past failures (product development, strategy planning, daily operation)

Note: * means the failure case.

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