Intrapreneurship, explained

By Meredith Somers

What is intrapreneurship

Intrapreneurship is acting like an entrepreneur within an established company. It’s creating a new business or venture within an organization. Sometimes that business becomes a new section, or department, or even a subsidiary spinoff.

Chances are there’s a handy example of intrapreneurship stuck to your desk: the Post-it note.

Also likely on — or accessible — at your desk is Gmail, which grew out of Google’s "20% time," while the Facebook “like” button was built during one of the company’s hackathons. And some of the military’s most well-known aircraft [the SR-71 Blackbird, and the F-22 Raptor] were engineered at Lockheed Martin’s Skunk Works.

Entrepreneurship doesn’t equal “small,” it equals value creation, said Bill Aulet, managing director of the Martin Trust Center for MIT Entrepreneurship.

“A lot of times people believe that entrepreneurship is strictly associated with startups; that’s not how we look at it,” Aulet said. “We believe that entrepreneurship is a way of creating value with new products, new ways of running businesses, and with a number of assets that you control. But also assets that you don’t control. So entrepreneurs can exist in corporations, and corporations need them more and more.”

Unlike entrepreneurs, intrapreneurs work with an existing company's resources, said MIT Sloan professor Michael Cusumano, an expert in strategy, product development, and entrepreneurship.

They're not building something entirely from scratch, nor are they risking their own money.

"They're creating something that hasn't been done before or done quite the same way," Cusumano said. "You need to think about how big is the market, how many resources do they need to create something, what could the payoff be. Many of the same criteria that we would use to evaluate a new venture by an entrepreneur is really the same."

The history of the term "intrapreneurship" remains a debate. In 1978, Gifford Pinchot III and Elizabeth Pinchot used the word in their paper "Intra-Corporate Entrepreneurship," and again in their 1985 book "Intrapreneuring."

Stanford University professor Robert Burgelman has written on the topic multiple times in the last 30 years, as has MIT Sloan's Edward Roberts.

"I think the word has been around for a while," Aulet said. "People said 'that's an oxymoron. The mere fact that you're in a big company means that you can't be an entrepreneur; you've decided you don't want to be an entrepreneur.' I know there's a lot of obstacles to being an entrepreneur in a big organization, but we can't accept that just because it's hard it can't be done."

Why you should care

MIT professor Eric von Hippel justifies intrapreneurship like this: Imagine you're a mechanical watchmaker. You've been assembling mechanical watches and their tiny mechanical pieces for decades. Then along comes an electronic watch company that's shiny, new, and doesn't rely on any of those mechanical pieces or processes.

It's tough to admit that mechanical watches are becoming obsolete, especially when the company is currently selling millions of watches. But leadership might also see disaster coming, so the firm stands up a small internal venture to start making electronic watches.

If things start to get desperate for the company as a whole, that little hive of workers manufacturing electrical watches can be scaled up.

"It's the innovator's dilemma," von Hippel said. "The idea is that firms get caught up in doing what they're doing, and even if something brand new comes up, if it's outside their existing business model, they won't necessarily do something about it."

Introducing intrapreneurship into your company

Understand that intrapreneurship isn't for everybody. There are many industries that can't be revolutionized by an internal startup.

The aircraft industry can't just get some venture capital and whip up a company that goes public and can be sold in the next five or 10 years. The same goes for a power company, Aulet said, because of the price of power, and having to work with an existing grid rather than creating a new one.

Even if corporate entrepreneurship is the right choice to invest in at your business, remember that it is different from a traditional startup because the latter is based on a blank canvas.

“[In a startup] you really don’t have to worry about anything else; there’s nothing there,” Aulet said. “When you’re in a larger company, there’s already a lot of paint on the canvas. There might even be a rip on the campus — somebody else might claim to own this canvas.”

That’s good and bad news, Aulet said. An existing business has products, revenue, employees, cash, organizational structure, and processes — all the things a startup is trying to obtain.

“But the dilemma is once you get those things, it creates inertia in the system, it creates rigidity, which makes it hard to be totally flexible,” Aulet said. “An entrepreneur has nothing to lose because they have nothing. However, when you’re in a big company you don’t have freedom because you do have a lot to lose. So you have to balance things that you do with the fact that they could be threatening to your existing business.”

What happens in most firms, von Hippel said, is that there are “antibodies” against a new model of work.

“If you’re sitting there and you see a guy in the corner working on an automated system that will make your skills obsolete, you’re going to try to cut off his funding,” von Hippel said. “That’s why it’s really hard in a big, established organization, to do new things.”

Encouraging and incentivizing intrapreneurship

One way to make doing new things easier is through incentive programs.

Incentive programs can come in a variety of forms. Some companies take an approach like holding a university-style idea fair, while others ask for a more formal proposal or business plan.

“Some companies have a sandbox fund where they can allocate certain money to employees where they could maybe buy off time from their other work, or get a special assignment but then be able to hire some people to help them build a prototype or a business plan or do some market research,” Cusumano said.

It’s important to give employees opportunity for ownership — that means control of costs and profits. That’s what gets people excited and motivated, Cusumano said.

Words of warning

A company looking to build on something that already exists tends to favor incremental over disruptive innovation — if you already have a product, you want to take advantage of that product because it’s an asset.

The more incremental your product introduction is, the more likely you are to succeed. That may seem opposite of logic, but it’s not. If you know there’s an existing demand or customer base for a particular type of product, and you have something similar, you’re likely going to be able to sell it.

“Frosted flakes with blueberries is probably going to sell to people who like frosted flakes,” Cusumano said. “But to introduce a totally new type of breakfast, like breakfast in a pill, is much more disruptive, much more likely to fail.” Managers that oversee corporate venturing don’t always understand that internal venturing has just as many risks as the entrepreneurial world. It’s important to remember that most new ventures fail, just like most new product introductions fail.

The playstation, ipod, post-it note, and gmail are all products of intrapreneurship.

Remember when Pepsi introduced Crystal Pepsi? Or Coca Cola’s New Coke? Even companies that have had success with intrapreneurship also have failed attempts on their records: Facebook Home, Microsoft Zune, Google Lively, Apple Newton PDA. “In the broader world, companies need to have a relatively large portfolio because they have to expect they’re going to get a lot of failures or non-successes in some ways,” Cusumano said. “All it takes is one big success to pay for dozens of failures.”

Avoiding traps and Origin of Species

Don’t think your company is immune to competition and outmodedness. One of the biggest mistakes is falling victim to being a “one-trick pony,” Cusumano said.

Google’s revenue in 2015 was $74 billion, which came largely from advertisements, while only $448 million came from other sources.

Ninety percent of Google’s revenue comes from searches, and the company knows it, Cusumano said. That’s why it’s been investing in new businesses for the past decade. While they lose lots of money on those new businesses, Google structures the investments in a way so the company can see where the money is going and pinpoint losses.

“Most companies never really get beyond their original business,” Cusumano said. “That’s also why corporate entrepreneurship is important. That one business, that one focus, is eventually going to be under attack and the profits are going to eventually erode."

Xerox's PARC [Palo Alto Research Center], and AT&T's Bell Laboratories [now Nokia Bell Labs] successfully embraced corporate entrepreneurship. PARC was the birthplace of laser printing, the computer mouse, and Ethernet, while Bell Labs researchers are responsible for transistors and some programming languages.

But companies like Lehman Brothers and Kodak, which were once on top of their industries, don't exist anymore, Aulet said. In a recent op-ed in The Boston Globe, Aulet warned that GE looks ready to "wave the white flag" as the company considers breaking itself up after its stock declined through 2017 and into 2018.

"[Intrapreneurship] is not easy, but if you don't do it, you're going to die," Aulet said. "Your company is going to die. We can see that over and over again. You might think it but tomorrow's promised to nobody. Darwin said it's not the strongest that survives, it's not the most intelligent that survives, it's the one that adapts to change that survives."

https://mitsloan.mit.edu/ideas-made-to-matter/intrapreneurship-explained