Training in innovation and corporate entrepreneurship at the Development Bank of Southern Africa

1. Introduction (and abstract)

The aim of this paper is to present a few highlights on the Innovation and Corporate Entrepreneurship Training that is currently taking place at the Bank.

The Development Bank of Southern Africa (DBSA) introduced an Innovation and Corporate Entrepreneurship (ICE) Training initiative in May 2005. Almost 100 managers and senior staff members were trained during the five days that was spread over three months. This training will now be rolled out to 250 professional and other DBSA staff members.

The Innovation aspect initially formed part of the Change Management Programme of DBSA and was later extended and incorporated into the comprehensive concept of Corporate Entrepreneurship (CE). The two DBSA cultural surveys, one in 1999 and another in 2002, called for something to be done to boost the morale of staff and to align the organisation for continuous development.

The ICE training was a combined venture by the DBSA Vulindlela Academy (DVA), the Corporate Strategy Unit (C Strat), the CEO's Office and the University of Pretoria's Continuing Education (CE at UP). A top down approach was followed and the CEO and Executive Management was an inspiring force behind the initiative that kicked off at their Management Review Meeting (MRM) of July 2005 in Magaliesburg. The active involvement of top management is the main reason for the success of these training **outputs**.

Besides the underlying IEC theory, several conventional and unconventional **activities** and methods were used to unleash the creativity potential of the delegates. The **envisaged impact** of this initiative was to revitalise the DBSA, to stimulate creativity through a range of training seminars and to come up with new ventures to enhance future development. The **outcome** of the training process so far was a surprising 21 new venture proposals.

2. Events leading to the need for ICE training

The 1999 DBSA Cultural survey as well as the 2004 DBSA Cultural survey revealed amongst others that the morale of DBSA staff is low. The DBSA Change Management Initiative of 2004 included four elements that were identified to deal with the results of the two cultural surveys. The four elements were: Innovation and Corporate Entrepreneurship (ICE); Communication; Leadership and Performance incentives.

A review of the Vision 2004 showed the necessity of the Quantum Leap Strategy that further intensified DBSA's development functions. The Quantum Leap Strategy put emphasis on Capacity Building, Financial Intermediation and Historical Unserved Market segments.

Vision 2004 was followed by Vision 2014 also known as DBSA's strategic road map. Vision 2014 extended the strategic choices of Vision 2014 particularly towards Innovation and Corporate Entrepreneurship (ICE) part of capacity building.

3. Philosophy behind designing the training intervention

A comprehensive ICEAI (Innovation and Corporate Entrepreneurship Assessment Instrument) was developed to measure the level of Innovation and Corporate Entrepreneurship at DBSA. This questionnaire (or instrument) was filled out by 320 staff members of DBSA during May 2005.

This instrument was developed from the internationally known Corporate Entrepreneurship Assessment Instrument (CEAI) of Morris and Kuratko (2002).
The CEAI questionnaire was used in similar surveys worldwide. This instrument covered five constructs. Another three constructs were handled parallel to this one with more emphasis on innovation and was developed by the DBSA innovation strategy team.

The results of the questionnaire survey were used to develop the training course. A team of DBSA together with the section for continuing Education of the University of Pretoria refined the contents of their existing courses to align it with DBSA needs.

The philosophy followed was that there should first be buy-in from top management, management and senior staff of DBSA. Without high-level involvement the training would not have the same impact. Following this initial buy-in the training was rolled out to the professional and other staff of DBSA.

Unconventional methods were used during the training to unleash the creativity of the delegates. These methods included making sketches while listening to specific music, the writing of poems and the playing with clay. Apart from the fun the delegates had, several creative ideas and proposals flew from this exercise.

During the second contact day, delegates had to come up with specific new ventures for their units. These new ventures were presented by the delegate and then discussed by the rest of the group. More than 20 new ventured were proposed. These will now be rewritten into new venture plans and submitted to the New Venture Committee of DBSA.

4. Entrepreneurship definitions and concepts

Entrepreneurship: The creation of new opportunities, and during the development of new resource combinations leading to new organisational forms and arrangements by a champion to facilitate internal entrepreneurship.
(Emphasis usually on Individual)

An entrepreneur: Someone who starts a business and who grows the business to eventually create wealth in society. Entrepreneurs are also defined in societies as those who make things happen.

Business Skills: A combination of financial skills, marketing skills, operational skills, human resources skills, legal skills, general management and business plan skills.

Entrepreneurial Skills: A combination of creativity, innovation, risk taking, identification of opportunities and the interpretation of role models.

Creativity: A process of being sensitive to problems, deficiencies, gaps in knowledge, missing elements, disharmonies, and so on; identifying the difficulty: searching for solutions, making guesses, or formulating hypotheses about the deficiencies: testing and re-testing them; and finally communicating the results.

Innovation: The practical implementation of the idea concept to ensure that the set aims on a commercial, profitable basis are met, in line with a specific opportunity in the market environment.

Corporate entrepreneurship: A multidimensional concept that incorporates a firm's activities directed at product and technological innovation, risk taking and pro-activeness. (Emphasis on whole firm)

Corporate Venturing: How corporations engage in internal ventures to take advantage of various opportunities. (Emphasis usually on the process)

Need for achievement was defined by Prof. David Mclelland in 1961. It is the need of people to feel good about their own achievements. This can be enhanced through training, affiliation and power.

5. Creativity

An important prerequisite for innovation and ultimate opportunity finding, is creativity.

Creativity is a process of being sensitive to problems, deficiencies, gaps in knowledge, missing elements, disharmonies, and so on; identifying the difficulty: searching for solutions, making guesses, or formulating hypotheses about the deficiencies: testing and retesting them; and finally communicating the results.

The Requirements for creativity are:

- The product of the thought process has to hand something "new" and/or valuable (for the reasoner of his/her culture);
- The reasoning has to be unconventional and it should change or readjust the historical thought processes;
- The thought process requires a high motivational and endurance input. The input has to be intense in the short term or continual through the long term; and
- The initial problem has to be so vague so that the whole process goes through an in-depth problem-defining phase.

Obviously there are several myths regarding creativity such as:

- Creativity is an innate talent and cannot be taught;
- Creativity is a phenomena linked with the so-called rebel;
- The need for "craziness";
- The group versus the individual; and
- Intelligence is a prerequisite for creativity.

According to the 4P model, creativity is the interaction between the person, the product, the process and the press (environment).

The person aspect includes Personality, Intelligence and Cognitive style.

The creative person must have:

- A desire to achieve a goal or winning attitude;
- A high level of motivation, dedication and commitment;
- A high level of self-confidence, not risk aversive an accepting of failure;
- The ability to link different (unrelated) elements or entities;
- The assimilation of negativities regarding failed projects of attempts;
- An ability to shift existing paradigms and assess different perspectives;
- Problem and opportunity conceptualisation in a different or new frame of mind;
- A "single minded" vision or road map;
- A working style that induces hard work and relaxation in order to enhance incubation; and

- The ability to determine whether individual or group creativity should take place.

Creativity is also a process. The creative process entails: Awareness and interest; Preparation; Incubation; Illumination (insight); and Verification.

The creativity product will usually go through the discovery, invention, innovation and patent phase.

The creative environment entails the ability to toy with elements and concepts:

A good environment should: encourage the flow of stimulating information; ensure informational feedback whenever possible and as quickly as possible; provide new experiences and create sources of information; process whatever learning occurs; share stories of successes and failures; and tolerate mistakes as inevitable, i.e. learning through experience or trail and error.

Barriers for creativity are situated in several aspects and environments.

1. The social environment:

- A lack of understanding and support for new ideas in communities, among peers and parents;
- Many families have autocratic decision-making structure, and therefore do not allow children to thing independently;
- Risk taking is not allowed; and
- Culture and certain customs or beliefs within a sub-culture might form barriers to creative behaviour (e.g. women in particular African cultural structures are not allowed to own or run entrepreneurial ventures. Their sole purpose is to raise children.)

2. The economic environment:

- Broadly speaking, the macro economy does not support the development of new ideas and products (e.g. an enabling environment that advances entrepreneurial performance);
- There are no growth prospects in the economy;
- No financial support is available for the development process of new products;
- Risk taking is seen as a negative element of the economy; and
- No rewards exist for new and feasible ideas.

3. The physical environment:

- There are continuous or once-off distractions in the thinking process (e.g. disruptive sounds, climate and energy);
- In the education and training environment the venues are conventional (e.g. even rows and grey/dull colours);
- The existence of routine or related tasks (e.g. you have to eat, work, study and sleep as part of a specific timetable and routine); and
- The work routing consists of always conducting the same tasks at the same time and the same way.

4. Cultural barriers:

- Individuals have to go the school, after study at a university or college, then find a job with a governmental/CORPORATE institution (cultural mindset). Entrepreneurial endeavour is not a feature of such a cultural group;
- The unknown is unsafe and therefor risk averseness is the rule;

- An expectation is created in certain cultures, which prescribes that one has to be practical and think economically before your ideas can be generated;
- To ask the question, or to question an issue, is impertinent and unacceptable;
- Stereotyping implies making assumptions about certain issues without proper knowledge of the background or particulars of the matter, with specific reference to cultural characteristics; and
- The policy of a company is to follow strict orders and procedures, and also stay in line with the organisational structure.

5. Perceptual barriers:

- Applying a narrow mindset to analyse problems. An example in this regard is for instance idea anxiety;
- Making assumptions about a problem or idea without a holistic viewpoint or displaying an inability to structure the problem and evaluate the smaller elements;
- Prematurity. Individuals tend to assume that something will word without proper marketing research or feasibility studies. Intuitive ability only! and
- Characteristics and even the utilities of the new product are sometimes perceived differently by the owner in comparison to the potential customer. In many new products this perceptual block has resulted in failure in the market place.

In Conclusion, Innovation is the practical implementation but needs a creative mind to make it possible. Creativity is the thought process that leads to the development and generation of ideas. Association is a technique to display creativity. This was illustrated in group sessions with great fun. It included from dancing o the table to playing with clay.

6. Innovation and Opportunities

Defining Innovation

Innovation is the practical implementation of the idea concept to ensure that the set aims on a commercial, profitable basis are met, in line with a specific opportunity in the market environment.

There are Seven Resources for Innovative Opportunities namely:

- The unexpected;
- Incongruency/Incompatibility;
- Innovation relies on the need for process;
- Changes in marketing and industry structures;
- Demographic changes;
- Changes in perception, state of mind and reason; and
- New knowledge.

The Basics of Innovational Opportunities are that there should be: A need/problem in the market, thus attractive; Profitability in the long-term; The product/service or process creates value to a defined number of selected/potential customer (size of the market); and A certain timeframe exists for each and every opportunity.

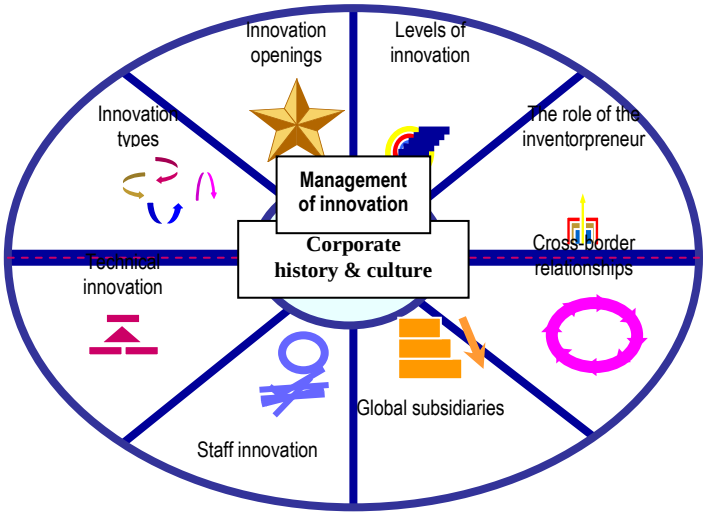
The Five Standard Wisdoms of Innovation can be summarised as:

- Specific innovative practices can be readily benchmarked and imported into other environments;
- Companies need to establish a market-in or product-out innovation strategy that fits the requirements of their market;

- The best way to foster innovation in a large, established organisation is to create an internal "skunk-works" – that is, an entrepreneurial unit insulated from the potentially stifling influence of regular operating procedures, systems, management personnel, and corporate culture;
- Real innovation comes through a revolutionary breakthrough, or paradigm shift; and
- Innovation is the product of strategic management.

The wheel of innovation has two halves namely management and culture each with four sub-sections.

Figure 6.1: Wheel of innovation



Three Types of Innovation were handled namely:

Type A: New market or Industry
Type B: Changing the Basis of Competition
Type C: Line Extension

The organisational culture characteristics needed to manage innovation effectively should include: heroes, freedom, excitement and anticipation, never give up, value in failure and fun.

Communication regarding mentoring, clear vision, ambitious goals, planning, opening doors, interface with customers, and rewards.

Management Style to support innovation should include: personal involvement, being a servant, eliminating barriers, breaking the rules, trust and credibility, risk taking, being a champion, taking time, giving credit and empowerment.

7. Corporate Venturing

Corporate venturing does not entail possible entrepreneurs running in all directions with their ideas in an organisation. A specific process needs to be followed in order not to create havoc. The Venturing Process Model is a good starting point. This process was followed in handling the new venture proposals of DBSA staff.

The Venturing Process Model needs to be introduced. Setting the Stage is important whereby senior management decides whether venturing is strategically desirable and necessary for the organisation, whether it creates conditions that will encourage a flow of venture ideas, and

whether it designs and frames the process for managing the venturing activity. Senior management monitors and controls corporate risk level, while the Venture management manages and controls the venture.

Part of the Model is that the roles of management in the organisation should be defined.

Venture management: While continuing to champion the venture, Venture management must hone its survival skills and learn how to manage the inevitable challenges of corporate politics that may come from Senior management such as budgetary and time constraints.

Senior management: They use systematic methods of information gathering and analysis to learn how to manage the internal venturing process more effectively.

There are certain conditions to qualify as a Corporate Venture.

Not all new activities can be classified as corporate ventures. Corporate ventures:

- ✓ Involves an activity new to the organisation;
- ✓ Is initiated or conducted internally;
- ✓ Involves significantly higher risk of failure or large losses than the organisation's base business;
- ✓ Is characterised by greater uncertainty than the base business;
- ✓ Will be managed separately at some time during its life; and
- ✓ Is undertaken for the purpose of increasing sales, profit, productivity, or quality.

The 21 new ventures proposed by DBSA staff will be evaluated against the above criteria.

Table.8.1 presents a comparison between the USA and Japan regarding six possible reasons why their companies went into corporate venturing.

Table 8.1: Reasons for corporate venturing (%)

	USA Companies	Japanese Companies
Maturity of the base business	**70**	**57**
To meet strategic goals	**76**	**73**
To provide challenges to managers	**46**	**15**
To develop future managers	**30**	**17**
To survive	**35**	**28**
To provide employment	**3**	**24**

Interesting to note the difference where “To provide employment” was more important in Japanese firms 24% against the 3% of US firms, while the US firms rather “Provide challenges to managers” 46% against the 15% for Japanese firms. The best reasons reported for venturing are strategic necessity and maturity of the existing organisations. This might also be true for DBSA.

Four important first steps in the process towards corporate venturing are:

- ✓ Creating a venturesome climate and a pervasive commitment to venturing
- ✓ Selecting the business development strategy – i.e., the strategy that drives the venturing effort
- ✓ Defining and using venture selection criteria
- ✓ Managing disappointment

In Conclusion, many companies that have made a systematic effort to learn how to conduct an effective internal venturing program have found it to be a viable, effective strategy for creating new businesses.

The data seriously challenge the fashionable and almost religious belief that all companies should "stick to their knitting" and that diversification per se is a poor strategy. Some failures are inevitable: probably half the ventures initiated in most companies will not be successful.

In DBSA "management of disappointment" will inevitably be part of the lessons learnt process.

8. Identifying, Evaluating, and Selecting Opportunity: Building the Venture Proposal

Identifying opportunity entails creating a flow of ideas through people and training.

Sources of opportunity can come from internal sources, industry and market changes and the external environment.

Evaluating & Selecting Opportunities should take into account the following questions:

- Is the opportunity consistent with the firm's strategy?
- What factors produce this opportunity?
- What are the character, size, and nature of the market?
- What factors are required for the proposed venture's success?
- Is the opportunity worth the effort?

Guidelines in evaluating opportunities include the following:

- A break-even time of less than 36 months;
- Stable gross margins of 20% to 50%;
- After-tax profit potential of 10% to 15%;
- Multiple rather than one-shot investments;
- For industrial customers, payback in 18 months or less;
- Low asset intensity; and
- Differentiation on the basis of product rather than price.

Choosing Venture Management is important to take the innovation further. Roles that must be filled on the venture team are:

- Technical innovator;
- Business innovator;
- Product champion;
- Chief executive; and
- Executive champion.

Evaluating the Performance of Venture Management should be done according to the following evaluation criteria:

- Actual completion of planned events;
- Completion of events competently in a reasonable time and at a reasonable cost;
- Quality of the conclusions drawn from completed events and alteration of assumptions and plans to fit new realities (I.e., evidence of learning and its application);
- Actual business results, judged both on an absolute basis and by comparison with projections;

- Evidence of commitment (in terms of energy and hard work) to making the venture a success;
- Evidence of team spirit;
- Ability to obtain collaboration from other parts of the firm;
- Ability to overcome internal obstacles and red tape without putting the firm at risk;
- Minimal turnover of venture team members;
- Parsimony in the use of resources; and
- Training and development of team personnel.

In Compensating Venture Management the question should be asked: Does money really talk?

Current compensation strategies and practices are:

- More than 30% of the firms compensated venture managers differently than other managers;
- More than 50% of all respondents, including firms without special incentives, believed that variable bonuses based on venture ROI should be used to improve venture management performance, and more than 50% of the firms with programs used this incentive;
- More than 50%of the firms using incentives believed that there should be a ceiling on incentives-ranging from 50% to 200% of salary; and
- Internal equity was the major obstacle cited by firms that did not have an incentive program. Other obstacles included the difficulty of determining venture goals, concert about shareholder objections, and administrative complexity. In contrast, those firms that did have a program pointed to the difficulty of determining venture goals as the most significant obstacle. Internal equity was not regarded as an important obstacle in those firms.

Table 8.1: Control of Responsibilities between Venture Management and Senior Management.

Control tasks	Venture management responsibility	Senior management responsibility
Design		
Select venture management	-----	Primary
Design compensation/incentives program	-----	Primary
Select format/entry strategy	Secondary	Primary
Determine organisational positioning	Advisory	Primary
Establish financing triggers	Secondary	Primary
Propose business plans	Primary	Approval
Feedback implementation		
Articulate assumptions	Primary	Secondary
Design assumptions tests	Primary	Secondary
Review test results	Secondary	Primary
Modify business plan	Primary	Secondary
Approve plan changes	None	Primary
Budged control		
Prepare budget	Primary	Advisory
Approve budget	None	Primary
Conduct line-item review	Primary	None
Prepare event completion budget	Primary	None
Conduct event completion review-budget vs. actual	Primary	Primary
Policy/Procedure control		
Identify obstacles	Primary	Remove them
Identify necessities	None	Primary
Permit exceptions	None	Primary
Fate of the venture		
Decide the venture's fate	Secondary	Primary

9. Locating the Venture in the Organisation

The Venture Location Options should take into account:

- **Focus:** The more embedded a venture, the less its chances of being the focus of attention in that location
- **Priority:** The more embedded a venture, the less likely it is to receive top priority
- **Reliability of finding:** The more embedded a venture, the more unpredictable the availability of funds
- **Coping with growth:** The greater the venture's separation from ongoing operations, the less built-in infrastructure and staff will be available to cope with the venture's growth

Six Major Levels of Location could be considered by DBSA

1. Assigning the project to a line manager

The venture project is assigned to a line manager to execute as all or part of his or her ongoing managerial responsibilities

Pros: The venture enjoys maximum exposure to operations expertise

Cons: This location maximises the venture's intrusion into and disruption of the unit's present business

2. Creating a separate section in an operating division
The venture is assigned full-time to a line manager who reports to an operating division
Pros: The venture gains political support
Cons: The venture has a low priority in terms of commitment

3. Having the venture report to R&D
The venture is assigned full-time to a venture manager who reports to R&D
Pros: The venture remains close to evolving technology
Cons: The R&D division may become infatuated with the technology and be oblivious to market needs and timing

4. Having the venture report to a senior staff function
The person in charge of the venture reports to a senior staff position
Pros: This approach ensures dedication to addressing the key challenges of the venture operation
Cons: The venture has little exposure to operations expertise

5. Having the venture report to a new-venture division
The venture manager reports to a separate new-venture division
Pros: This approach ensures sympathetic nurturing of the venture, protection from corporate red tape
Cons: The venture is removed from the corporate mainstream

6. Having the venture report directly to the CEO
Pros: This arrangement guarantees maximum political protection, mainstream co-operation, and the availability of resources
Cons: Strong support from the CEO can hamper objective evaluation of the venture's progress, and failures are likely to be more costly

10. Elements of a New-Venture Plan

DBSA staff should present new venture plans before the end of the DBSA financial year in March 2006. The following twelve points need to be adhered to in developing the new venture plan:

1. Description of the proposed business – precisely what it will do, including its unique characteristics and clear objectives;
2. Strategic relationship between the new business and the parent firm;
3. Target markets – including their description and size, market trends, why customers will buy, and the specific accounts to be targeted initially;
4. Present and anticipated competition – including the identity of specific competitors and their characteristics, competitive advantages, and market share;
5. Go / no-go assumptions and the basis for them;
6. Definition of failure;
7. Action plans and objectives, with defined milestones designed to test the go / no-go assumptions in each functional area;
8. Necessary resources – money, physical, and human – and how they will be acquired;
9. Risks and how they will be managed;
10. Sensitivity analysis – an assessment of how certain contingencies might affect the venture;
11. Financial projections and objectives, together with the assumptions of which they are based, including profit and loss and cash break-even points; and
12. Description of the venture's management and the compensation methods that will be used.

11. Guiding Principles for the ICE to Survive

The following are suggestions for Venture Managers through the thickest Bureaucratic Jungles:

- **Don't ask for permission:** Some innovators have found clever ways to avoid dealing with the system altogether, eliminating the need for permission;
- **Use suppliers:** Suppliers can be enlisted as allies in the process of testing an idea;
- **Use customers (They have more credibility than you do):** Customers can be the venture manager's most effective allies in the effort to secure approval for testing new ideas.

- Don't pursue an idea unless the potential reward justifies the potential risk;
- Ask for the smallest possible decision at each stage of development;
- Find and use allies, especially and executive champion;
- Be your own first and most rigorous critic as you change your plan;
- Recognise your own weaknesses and act decisively to compensate for them;
- Avoid premature publicity, both internal and external;
- Do not automatically decide to sacrifice profit and cash flow for market share;
- Recognise and adapt to the venture's life-cycle stage;
- Convince senior management that new ventures need different policies and procedures than the more mature parent organisation; and
- Provide leadership as well as management.

Sources of Resistance and Inertia for numerous in organisations and can be classified into the following five categories:

1. **Indifference:** The venture's small size renders key parts of the organisation indifferent to providing the co-operation the venture requires in order to get off the ground
2. **Distraction:** The people responsible for conducting the company's major ongoing businesses may simply be too distracted
3. **Competition:** Outright enmity on the part of external competitors
4. **Disaffection:** direct resistance to the venture's progress
5. **Direct threat:** The final category consists of determined opponents of the venture who see it as an affront to their position or a direct threat to their part of the organisation

Venture managers should use Political Approaches to solve Political Problems such as:

Overcoming lack of legitimacy; Overcoming resource starvation; Overcoming resistance and inertia; Clarity of the venture's crucial immediate and long-term objectives; Identify potential political obstacles to progress; Identify potential opponents and allies; Anticipate responses by key targets; Formulate a political strategy; and Monitor the progress of the political strategy.

12. Conclusions and Recommendations

The ICE training output for the management and senior staff members of DBSA proved to be a highly successful intervention in itself. The activities engage into not only provided great fun to the participants but also unleashed their creativity. Apart from dancing on the table, several poems were written on development and the developmental mind of the senior staff was displayed in their clay art works.

During this course the theoretical aspects of innovation and corporate entrepreneurship were renewed in a highly successful informal method and were also a good exercise in team building for senior DBSA staff.

The outcomes of this training are still flowing in where 21 new ventures were identified and in the process of evaluation. The impact of this training venture was that it revitalised the DBSA, it

stimulated creative thinking and new ventures that will enhance new projects and development, and sustain the DBSA's business efficiency, growth and overall viability as DFI.

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