Funding and facilitating innovation

8. Appendix C: Valorization-addendum

Dynamical changing market conditions require organizations to continuously adapt. This does not merely affect a firm's market-facing product line, but rather its organizational versatility to adjust to any given market environment as quickly as possible. While over the past decades, the ascent of multinational firms has been primarily attributed to the ability to deliver a particular product or service range at consistent quality for a competitive price; today's growth leaders are information-driven powerhouses that compete on innovativeness and speed. Hence, *too big to fail* is outdated; *too quick to fail* is the new paradigm.

In light of this paradigm shift, the studies in my dissertation analyze two crucial components that allow organizations to persist under dynamic market circumstances. First, I analyze capital budgeting decision for innovation projects in face of risk and information abundance and how that alters decision-making behavior. Second, I delineate the role of top management in facilitating intrapreneurial undertakings as a means to innovate in an established organization.

Nowadays, decision-makers face an overabundance of information. Navigating through large amounts of information to determine what information is diagnostic for a decision outcome, and what is not, is not only effortful, but can also bear the risk that decision-makers consider nondiagnostic information in a decision task. In this dissertation I show that this deficiency exists in capital budgeting decisions for innovation projects and that decision-makers take nondiagnostic information into account when exposed to it. As a consequence, capital budgeting decision dilute, such that decision-makers allocate less funds to projects when taking nondiagnostic information into account, even more so with an increasing amount of nondiagnostic information available. To ensure that decision-makers allocate adequate funds to innovation projects, companies need to reevaluate the amount and breadth of information utilized in capital budgeting decision. Although a general tendency to include as much information as possible in order to take an informed decision, my results show that there are

limits. More is not necessarily better, it is more important to provide selected and relevant information that decision-makers can process effectively in capital budgeting tasks.

Further, my research suggests that decision-makers tend to exhibit a preference for familiar information cues when it comes to an overabundance of information causing cognitive load. This is particularly relevant for strategic decisions where different types of information, for instance financial and non-financial, are integral part of the decision-making process. An individual preference under difficult circumstances such as risk or cognitive load may cause suboptimal decisions, thereby endangering a company's long-term success. Particularly for decisions of strategy or budget allocation where information load is high, firms are well-advised to ensure that decision-makers review all relevant information and not limit the sight on familiar cues. This can for example be achieved through an adequate management information system that directs decision-makers attention relevant information and does not permit to limit attention on familiar information cues.

While effective capital budgeting decision-making under risk and cognitive load are crucial for the success of a company, so is the execution of funded innovation projects. One way of driving innovation projects is by facilitating intrapreneurial activity, so encouraging entrepreneurs in an existing organization to thrive. In my dissertation, I analyzed the role of top managers to increase the impact of intrapreneurship in an organization. As intrapreneurial activity is commonly a bottom-up initiative, it is extremely important that top managers create an environment that supports intrapreneurs as innovators rather than an alien to the core business. My research shows that top managers can support intrapreneurial projects through promoting and engaging the intrapreneur. It shows that these initiatives yield more successful results when top management support is provided in order to overcome obstacles in an established organization. This is particularly important when inertia has built up over time and any doubt about the ongoing core business is not permitted by anyone. Top managers need to safeguard

these doubters and intrapreneurs in order to remain competitive in the long-run and tap into novel revenue streams.

At the same time, however, top managers should not become too committed in an intrapreneurial project. Because what starts out as support may turn into interference with the actual intrapreneurs work such that the innovativeness of the undertakings is actually reduced. This can stem from a lack of understanding, which is especially severe in technology areas, where top managers' technical expertise may not be comprehensive enough to grasp an intrapreneur's business idea. Also, top managers' short-sighted incentive schemes may also hamper with the innovativeness of intrapreneurship projects. While innovations usually take immense financial effort with payback in very distant future, top managers may urge intrapreneurs to not aim for a long shot, but rather focus on the near-term impact of the initiative. Hence, top managers should balance their support depending on the situation to ensure that the projects have a chance to be successful within the organization, while also making sure that time and resources are provided to permit the realization of long-term objectives.

Lastly, it is important to create an environment for intrapreneurs to excel with their projects. My research shows that this is not limited to time and financial resources that need to be provided to intrapreneurs, but it is also about personal networks. From the interview and survey evidence, it can be inferred that especially in large organization a personal network is crucial for intrapreneurial undertakings to be successful. Given that not every intrapreneur has an intra-organizational network, it is important that top managers act as catalyst to bring the right people together in order to make innovation happen, but also safeguarding a smooth execution of the intrapreneurship project.

To sum up, the three studies of this dissertation examine capital budgeting decisions for innovation projects under risk and information overabundance as well as the top management

role in the execution of innovative intrapreneurship projects. All studies have direct practical implications for top managers and corporate decision-makers. With my dissertation I contribute a better understanding of the behavior of decision-makers under challenging conditions, which allows organizations to mediate this behavior in order to prevent suboptimal decisions. Further, I provide insights in the role of top managers to allow intrapreneurs to successfully pursue innovative undertakings thereby contributing to overall long-term firm performance.