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## Dynamics of Corporate Entrepreneurial Initiatives: A Literature Review

*Adim Chidiebere Victor and Poi Godwin*



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**Adim, Chidiebere Victor**

Department of Management, Faculty of Management Sciences, Rivers State University,  
Nkpolu-Oroworukwo, Port Harcourt, Nigeria.

**Poi, Godwin (PhD, FCA)**

Director, Entrepreneurship Center & Head of Department of Business Administration,  
Faculty of Social and Management Sciences, University of Africa, Toru-Orua, Bayelsa State,  
Nigeria

### **ABSTRACT**

The competitive landscape in many industries today is marked by intense competition among existing players and the emergence of many focused competitors targeting specific segments of the market. In addition, the macro environment is characterized by rapid technological progress in many fields resulting in current solutions to customer problems becoming obsolete. These changes have highlighted the need for companies to become more entrepreneurial. Institutionalizing entrepreneurship, therefore, is a major challenge for the companies in the current competitive scenario. This study examined the dynamics of corporate entrepreneurship. From the review of extant literature, it was indicated that there was improved firm performance which was linked to corporate entrepreneurship. For companies that initiated actions to which competitors responded to, the firms had a tendency to be ahead of other competitors in introducing novel ideas or products and the companies strived in identifying new markets to sell products. Also, risk taking, innovativeness, competitive aggressiveness and organizational factors were key determinants of firm performance. It is recommended that empirical studies should be carried out using various criterion variables within different industrial sectors in Nigeria so as to test the validity of the concepts reviewed in this paper.

**Keywords:** *Corporate entrepreneurship, corporate venturing, organizational rejuvenation, innovation.*

## INTRODUCTION

The competitive landscape in many industries today is marked by intense competition among existing players and the emergence of many focused competitors targeting specific segments of the market. In addition, the macro environment is characterized by rapid technological progress in many fields resulting in current solutions to customer problems becoming obsolete. In this scenario, any company that is not continually developing, acquiring, and adapting to new technological advances and to the changing business environment may be making, in the words of Merrifield (1993), the unintentional strategic decision to be out of business within a few years. These changes have highlighted the need for companies to become more entrepreneurial (Dess, Lumpkin & McGee, 1999) and indeed, more companies around the globe are attempting to foster entrepreneurship so that business opportunities are perceived and exploited (Russell, 1999).

Many companies have succeeded in their endeavor to do so and have developed new approaches to innovate and to create new businesses and achieve profitable growth. Change, innovation, and entrepreneurship are factors describing what successful companies do to compete (Christensen & Raynor, 2003). At the same time, a larger question looming is the challenge of sustaining such changes, both in growing and mature organizations, particularly when the charismatic leadership that inspired the change disappears from the scene. It is an organizational paradox that, while the existing capabilities provide the basis for the current performance of a company, without renewal, they are likely to constrain the future ability to compete (Leonard-Barton, 1992). Institutionalizing entrepreneurship, therefore, is a major challenge for the companies in the current competitive scenario.

Corporate entrepreneurship (CE) is crucially important to the survival, profitability and growth of a company. This is due to the fact that CE activities tend to stimulate creativity and innovation as well as to encourage a culture of calculated risk-taking throughout organizational operations which may reinforce the company's position in existing markets by entering new and lucrative growth fields (Zahra, Filatotchev & Wright, 2009). The corporate entrepreneurship elements in the established firms comprised the activities such as innovation, pro-activeness and risk-taking (Zahra, 1993).

## LITERATURE REVIEW

### Corporate Entrepreneurship Initiatives

Corporate Entrepreneurship (CE) is the process by which individuals inside organizations pursue opportunities without regard to the resources they currently control (Stevenson, Roberts & Grousbeck, 1998). An entrepreneurial manager links up discrete pieces of new technical knowledge that would provide a solution to a customer problem, matches this technical capability with the satisfaction of the market, and garners resources and skills needed to take the venture to the next stage. This process leads to the birth of new businesses and to the transformation of companies through a renewal of their key ideas (Guth & Ginsberg, 1990).

Corporate entrepreneurship has been defined by researchers from several perspectives. Sharma and Chrisman (1999) for instance, defined corporate entrepreneurship as “a process whereby an individual or group of individuals in an established company attempts to create a new organization or to instigate renewal or innovation within the current organizational structure. Morris and Kuratko (2002), on the other hand, defined corporate entrepreneurship as a term used to describe the entrepreneurial behaviour inside an established organization. In some circumstances, the term has also been referred to as corporate venturing or intrapreneurship (Hornsby, Kuratko & Zahra, 2002). Additionally, the literature on corporate entrepreneurship

has been seriously discussed in theoretical (Aktan & Bulut, 2008) and field studies, exploring its multidimensional structure such as risk-taking, innovativeness, pro-activeness and competitive aggressiveness (Lumpkin & Dess, 1996; 2001; Sharma & Chrisman, 1999). Crucially, Lassen (2007) posits that in order to survive, firms are required to continuously manage change and maintain flexibility, thus both fields of strategic management and entrepreneurship are envisaged to become increasingly intertwined.

Corporate entrepreneurship refers to a new management philosophy which promotes strategic agility, flexibility, continuous creativity to change administrative-orientated employees into Intrapreneurs (Kraus & Kauranen, 2009). One of the important sub-fields of entrepreneurship, is corporate entrepreneurship which can as well be described as “the processes whereby an individual or groups of individuals, together within an existing organization, make out for a new organization or propagate renewal or innovation within that organization (Sharma & Chrisman, 1999).

Corporate entrepreneurship (CE) is defined as comprising several types of factors and processes such as: innovation, venturing, and strategic renewal (Guth & Ginsberg, 1990). Innovation generally refers to the firm’s commitment to introducing new products, production processes, and organizational systems, while venturing refers to the creation of new businesses (Covin & Slevin, 1990; Lumpkin & Dess 1996). Strategic renewal refers to the creation of new wealth through new combinations of resources within an organization (Guth & Ginberg, 1990). Renewal involves improving an organization’s operation by changing the scope and strategy of business, competitive approach, and building and acquiring new capabilities (Zahra, 1996).

### **Corporate Venturing**

Corporate Venturing entails creating new businesses within a corporation, either by creating and owning the businesses (internal corporate venturing - they typically operate within the corporate structure), creating new businesses together with another external partner (cooperative corporate venturing – they exist as external entities that operate outside the organizational boundaries of the partners), or by creating new businesses outside the corporation and then invested in or acquired by the corporation (external corporate venturing – these are typically very young ventures or early growth- stage firms) (Morris et al, 2007). Corporate venturing are carried out by small teams (Covin & Miles, 1999).

Corporate venturing definition as an organizational function has a linkage to the concepts of “corporate entrepreneurship”. According to Sharma (2004), corporate venturing comprises of entrepreneurial efforts leading to the creation of new business organizations within the corporation. They may follow from or lead to innovations that exploit new markets, new product challenges, or both. These venturing efforts may or may not lead to the formation of new organizations that are different from existing organizational units in a structural sense, for instance, a new division. At the venture level, the definitions focus on the differences between ventures and mainstream Research & Development (R & D) projects. According to Tidd, Bessant and Pavitt (2001), a corporate venture differs from conventional R & D and product development activities in its objectives and organization. While R & D seeks to exploit already existing technological and market competencies, the primary function of a new venture is to learn new competencies. Equally, Block and Macmillan (1993) defined a venture as a project that involves an activity new to the firm involving significantly higher risk of failure or larger losses than the firm’s business base and that is characterized by greater uncertainty than the base business. The venture is managed separately at some time during its life and is undertaken for increasing sales, profit, productivity or quality.

Corporate venturing activities may involve different organizational forms: they may be part of the parent organization (internal ventures) or take the form of internal corporate joint venture which as defined by Zajac and Glass (2000). It involves the creation of an internally staffed ventured unit which is semi-autonomous, with the sponsoring organization maintaining ultimate power, but largely different from the sponsor. The rationale behind internal joint ventures is to engage a group of partners in joint effort to provide innovative products and services not easily provided by traditional organizational arrangement.

Recent literature divides opinion for corporate venturing into two main categories namely, financial and strategic. It seems that while companies usually set economic targets for their venturing activities, the motives to start venturing are rarely only in financial nature. Even if the primary aim of venturing is strategic, its strategic value needs to exceed the costs involved.

### **Organizational Renewal**

Organizational renewal is a more expansive way of organizations that are changing the way resources are specified and distributed in order to achieve better and sustainable overall economic performance (Stopford & Baden-Fuller, 1994). Hence, organizational renewal entails doing business in a completely different way compared to before.

### **Innovation (Entrepreneurial Orientation)**

Stopford and Baden-Fuller (1994) posit that corporate innovation defines the behaviour that transforms the company and the competitive environment or industry into something completely different than what it used to be. It is all about changing the rules of competition for the organization's industry. It often occurs in new industries and usually represents innovations that are associated with new combinations of resources. These different forms are not mutually exclusive; they may co-exist as entrepreneurial activities within a single organization (Covin & Miles, 1999).

With corporate entrepreneurship, innovation can be found within any of five areas – the firm's strategy, product offerings, served markets, internal organization (i.e., structure, processes, and capabilities), or business model (Kuratko & Audretsch, 2013). These innovations can constitute a firm's fundamental differentiation from its industry rivals. Hence, there are two possible reference points that can be considered when a firm exhibits strategic entrepreneurship: how much the firm is transforming itself relative to where it was before (e.g., transforming its products, markets, internal processes, etc.); and how much the firm is transforming itself relative to industry conventions or standards (again, in terms of product offerings, market definitions, internal processes, and so forth).

### **Forms of Corporate Entrepreneurship**

Unlike the forms corporate venturing and organizational renewal, the form innovation permits the whole organization, and not just a few individuals, to act entrepreneurially (Covin & Miles, 1999). According to Covin and Miles (1999), innovation, also known as entrepreneurial orientation, is made up of four different forms namely: organizational rejuvenation, strategic renewal, sustained regeneration and domain redefinition. In addition, Morris, Kuratko and Covin (2007) added the fifth form to entrepreneurial orientation; business model reconstruction. These five forms are manifested by the entire firm rather than by a single individual or team. They are the process of identifying and exploiting new opportunities and in the same time creating and sustaining competitive advantage via opportunity seeking and advantage seeking behaviours (Ketchen, Ireland, & Snow, 2007; Kuratko & Audretsch, 2009). This is also said to be a form of wealth creation (Ireland, Hitt & Sirmon, 2003). Opportunity



seeking behaviour is about identifying and exploiting (new) opportunities and new sources of value for the firms (Ireland *et al.*, 2003; Kuratko & Audretsch, 2009). Advantage seeking behaviour identifies ways in order to create a competitive advantage and the efforts to transform it into a sustainable competitive advantage (Ireland *et al.*, 2003). Companies enjoy competitive advantage when they implement a strategy that creates value and is not being implemented by another (potential) competitor; this strategy is said to be sustained if the other firms are not in the position of imitating the benefits of this strategy (Barney, 1991). These five forms are discussed hereunder:

### **Organizational Rejuvenation**

Organizational rejuvenation is the entrepreneurial phenomenon whereby the organization tries to ‘sustain or improve its competitive standing by altering its internal processes, structures, and/or capabilities,’ where the aim is to improve the implementation of the firm’s strategy (Covin & Miles, 1999). According to Morris *et al.* (2007), organizational rejuvenation entails redesigning the organization in a fundamental way, which may be a single innovation that has a major impact on the firm, or multiple smaller innovations that collectively contribute significantly to increase organizational efficiency or effectiveness at strategy implementation. Meaning that the effort in organizational rejuvenation must have a major impact on the way the firm’s strategy is implemented through internal processes, structures, and/or capabilities. When organizations engage in organizational entrepreneurship, they introduce innovations that change major aspects of how the operation is carried out, create value for the customers, and sustain or improve the way the organization implements its strategy (Covin & Miles, 1999). With organizational rejuvenation, the focus of the innovation effort is a core attribute or set of attributes associated with the firm’s internal operations. The objective of these efforts is to create a superior organizational vehicle through which the firm’s strategy can be implemented. When pursued successfully, organizational rejuvenation enables a firm to achieve competitive advantage without changing its strategy, product offerings, or served markets. Sometimes organizational rejuvenation entails a fundamental redesign of the entire organization, so as to get results from major business processes and reengineering projects that reconfigure the firm’s internal value-chain (Kuratko & Audretsch, 2009).

The firm’s internal processes, structures, and capabilities are the targets of organizational rejuvenation. Concerned primarily with improving the firm’s ability to execute strategies, organizational rejuvenation often entails changes to value chain activities. Demonstrating process and administrative innovations rather than product innovations, organizational rejuvenation shows that firms can become more entrepreneurial through processes and structures as well as by introducing new product and/or entering new markets with existing products (Dess, Ireland, Zahra, Floyd, Janney & Lane, 2003).

### **Strategic Renewal**

Strategic renewal helps a firm change how it competes. Thus, the nature of rivalry with competitors is altered as firms concentrate on renewing the strategies they use to successfully align themselves with their external environment. With organizational rejuvenation, the organization itself is the focus of corporate entrepreneurship efforts. This is in stark contrast to strategic renewal’s intention of positively mediating the “organization-environment interface (Covin & Miles, 1999). At its best, corporate entrepreneurship as strategic renewal allows the firm to more profitably exploit product-market opportunities. Often, this outcome is achieved when the firm repositions itself in ways that allow simultaneous exploitation of current competitive advantages and exploration for advantages that will lead to future success (Ireland, Hitt & Vaidyanath, 2002). Harley-Davidson’s turnaround demonstrates the use of this CE form.

Cisco Systems' current attempt to renew itself through internal growth rather than acquisitions highlights this firm's effort to at least partially alter how it competes, given changes in its competitive environment. Morris, Kuratko and Covin (2007) argue that not all firms are pursuing strategic renewal when they opt for a new strategy, it is considered strategic renewal when they represent fundamental repositioning efforts by the firm within its competitive space,' or new ventures that are based on 'unique value propositions that deviate from accepted strategic industrial recipes.

### **Sustained Regeneration**

Sustained regeneration, seen as the most recognized and common form, is the process where organizations 'regularly and continuously introduce new products and services or enter new markets,' the firm is in constant pursuit of entrepreneurial opportunities (Covin & Miles, 1999). Unlike the other forms, sustained regeneration cannot be presented by a single type of event; it is an ongoing process of introducing new products and services or entering a new market. Therefore, it will often result in incremental innovation and occasionally resulting in new business creation (Morris *et al.*, 2007). Covin and Miles (1999) characterized firms engaging in sustained regeneration as an innovative organization consisting of cultures, systems, structures and competencies which support innovation. They conclude that these firms often happen to be learning organizations. Organizational learning is the process of improving actions through better knowledge and understanding (Fiol & Lyles, 1985). So it is about creating knowledge and using this to improve or develop new products or business processes. Learning is important for significant change and innovation because it enables people to deploy new opportunities and create new options without becoming frozen in a rigid environment that disables advancements (Stopford & Baden-Fuller, 1994). It is important that the acquired knowledge through organizational learning is communicated properly throughout the organization in order to facilitate the innovation process without deteriorating the message/knowledge.

### **Domain Redefinition**

Domain redefinition refers to the 'entrepreneurial phenomenon whereby the organization proactively creates a new product-market arena that others have not recognized or actively sought to exploit' (Covin & Miles, 1999). Firms redefining its domain are proactive and they engage in strong entrepreneurial orientation (Dess *et al.*, 2003). Through domain redefinition, the firm proactively seeks to create a new product market position that competitors have not recognized or have underserved (Covin & Miles, 1999). The focus here is to explore for what is possible rather than exploiting what is currently available. The commitment to reenergize the firm by redefining its domain is also intended to establish first mover advantages. As the first firm to sell an offering in a new product category (Golder & Tellis, 1993), the company redefining its domain is proactive and demonstrates a strong entrepreneurial orientation (Lumpkin & Dess, 1996). Furthermore, by means of domain redefinition, firms go into a market where there are (temporarily) no competitors, also called the 'Blue Oceans' by Kim and Mauborgne (2004). By this first mover status, firms try to achieve a sustainable competitive advantage when competitors follow. Kim and Mauborgne (2004) present blue oceans as industries that do not exist yet – the unknown market space that is not yet discovered or touched by the competitor, where the demand is created by the firm rather than competed for. Out of the five forms, domain redefinition is the only form that results in the creation of a new business (Covin & Miles, 1999).

## **Business Model Reconstruction**

Business model reconstruction is added by Morris *et al.*, (2007) next to the four forms given by Covin and Miles (1999). Business model reconstruction refers to the entrepreneurial phenomenon whereby the firm designs or redesigns its core business model(s) in order to improve operational efficiencies or otherwise differentiate itself from industry competitors in ways valued by the market. Business models have been described as “stories that explain how enterprises work” (Magretta, 2002: 87). According to Magretta (2002), these stories address four basic questions: Who is the customer? What does the customer value? How do we make money in this business? Finally, what is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost? Firms may be founded on the basis of novel business models or they may adopt new business models in their pursuit of competitive advantage. Common activities within business model reconstruction include outsourcing (i.e., relying on external suppliers for activities previously performed internal to the firm) and, to a lesser extent, vertical integration (i.e., bringing elements of the supplier or distributor functions within the ownership or control of the firm). Business model reconstruction entails ‘designing or redesigning the core business model(s) in order to improve operational efficiencies or otherwise differentiate itself from industry competition in ways valued by the market’ (Morris *et al.*, 2007). Miles, Munila, and Darroch (2009) argue that in order to create competitive advantage via business model reconstruction the organization has to redefine the value proposition of the customer-firm relation.

## **Benefits of Corporate Entrepreneurship (CE)**

Corporate entrepreneurship can make a significant difference to a company’s ability to compete (Zahra, Kuratko & Jennings, 1999). It can be used to improve competitive positioning and transform corporations, their markets, and industries when opportunities for value-creating innovations are developed and exploited (Naman & Slevin, 1993; Lumpkin & Dess, 1996). A key benefit of corporate entrepreneurship (CE) may be to push companies to employ a range of strategies often in unique combinations (Dess, Lumpkin & McGee, 1999). By doing so, companies build layers of advantage by combining distinctive bases for competitive superiority (Hamel & Prahalad, 1989). There have been many studies to substantiate the above-mentioned claims. For instance, Brazeal (1993) and Zahra (1991) who found that CE can improve a company’s growth and profitability. Also, the empirical evidence in Kuratko, Montagnano and Hornsby (1990) found that CE improves performance by increasing the company’s proactiveness and willingness to take risks through development of new products, processes, and services. A longitudinal study by Zahra and Covin (1995) provides the best evidence of a strong CE performance relationship. Their study examined the longitudinal impact of CE on a financial performance index composed of both growth and profitability indicators. Using data from three separate samples and a total of 108 companies, they identified a positive and strengthening linkage between CE and subsequent financial performance.

## **Corporate Entrepreneurship and Organizational Performance**

Pro-activeness shows a firm’s aggressive pursuit of market opportunities and a strong emphasis on wanting to be among the very first to implement innovation in its industry (Rauch, Wiklund, Lumpkin & Frese, 2009). Pro-activeness is an opportunity-seeking, forward looking perspective characterized by the introduction of new products and services ahead of the competitors and acting in anticipation of future demand (Lumpkin & Dess 1996; Rauch *et al.*, 2009). Miller (1983) defines pro-activeness as an indication of a company’s determination to pursue promising opportunities, rather than merely responding to competitors’ moves. According to Lumpkin and Dess (1996), proactiveness refers to how a firm relates to market



opportunities in the process of new entry. They added that pro-activeness involves pursuing opportunities and the will to respond aggressively to competitors.

Wiklund (1999) stated that pro-activeness gives firms the ability to present new products or services to the market ahead of competitors, which also gives them a competitive advantage. Pro-active firms have a greater tendency to lead than to follow in the development of new procedures, technologies and the introduction of new products and services (Lumpkin & Dess, 1996). An entrepreneurial firm instills flexibility and grants individuals and teams the freedom to exercise their creativity and champion new ideas (Wang, 2008). These activities by the firm's team enable the firm to be more pro-active in introducing new products. Pro-activeness suggests an emphasis on initiating activities. It is closely related to innovativeness. For example, new product innovation is part of innovativeness but also forms part of pro-activeness by the firm (Lumpkin & Dess, 1996).

Autonomy within the entrepreneurial organization allows individuals to act freely and be able to explore new ideas (Lumpkin *et al.*, 2009) that can create competitive advantage. This type of behaviour by individuals within the firm brings about the possibility of acting on potential ideas for the future growth of the firm. The behaviour of managers by insisting on following the tried-and-tested paths or tending to support only projects with expected returns that are certain, have a negative relation to performance as compared to taking bold actions by entering the unknown business environment (Lumpkin & Dess, 1996). Thus, the support by senior management within the organization allows for individuals to take calculated risks. Entrepreneurial firms are risk-tolerant and this characteristic often stimulates them to eliminate the kind of traditional authoritarian structures that inhibit collaborative learning (Wang, 2008). These firms allow individuals and teams to act independently and exercise their creativity by taking risks in coming up with new ideas (Lumpkin & Dess, 1996). According to Miller (1983) and Wang (2008), risk-tolerant and innovative firms' managers encourage new ways of thinking - tolerating mistakes and rewarding individuals with new ideas that contribute to innovation and business improvement. The culture of allowing individuals to make mistakes when trying new ways of improving business performance promotes a sense of open-mindedness (Moreno & Casillas, 2008).

Innovativeness reflects a firm's tendency to engage in, and support, new ideas, uniqueness, experimentation and creative processes that may result in new products, services, or technological processes (Clark, 2010; Lumpkin & Dess, 1996). Innovative firms have capabilities to monitor the market changes and respond quickly, thus capitalizing on emerging opportunities (Wiklund, 1999). According to Huse *et al.* (2005), firms operating in turbulent environments are often characterized by rapid and frequent new –product- creation and high levels of research and development. Such environments appear to play a crucial role in influencing corporate entrepreneurship in an organization. Environmental changes stimulate firms to innovate by introducing new technologies, new products, services and processes to take advantage of opportunities arising from the dynamic environment (Huse, Neubaum & Gabrielsson, 2005). Environmental change can cause the firm to search for new means to remain competitive, which foster process innovation activities. Innovation keeps firms ahead of their competitors, thereby gaining a competitive advantage that leads to improved financial results (Wiklund, 1999).

Venter, Rwigema and Urban (2008), state that at the centre of entrepreneurship is innovativeness". An organization that innovates is classified as being entrepreneurial. Entrepreneurial activities influence a company's commitment to innovation (; Lumpkin & Dess, 1996) by offering innovative products and processes. According to Huse *et al.* (2005),

innovation has become a source of international competitive advantage. Zahra and Garvis (2000) stated that innovation can also lead to the development of key capabilities that can improve a firm's performance. They also put emphasis on the fact that innovation generates products, goods, processes, services and systems that can be used to meet customer needs and build a strong market position. Thus innovation can improve the firm's profitability and fuel its growth. Better profitability and sustainability are also realized from continuous innovation by the entrepreneurial organization. Huse *et al.* (2005) stated that innovation can be distinguished in three ways: the development of new products and services, the adoption of new technologies with an intention to improve production methods, the establishment of novel organizational structures and administrative systems. Innovation involves reinventing products in a profitable manner (Venter *et al.*, 2008). The level of entrepreneurial behaviour by the organization allows the company constantly to evaluate the potential possible business opportunities that will bring growth and sustainable business (Lumpkin & Dess, 1996).

Competitive aggressiveness is considered as a strong struggle to overcome the competitors; it is characterized by a combative attitude or aggressive response, which seeks a better positioning in the market or defeat threats. Competitive aggressiveness, which has a relation with the organization's propensity, intensely and directly challenges its competitors reaching better market position and seeking to overcome them. For Venkatraman (1989), the competitive aggressiveness is the position adopted by a company, through allocating resources in order to gain positions in a specific market faster than its competitors. It can be based on product innovation, market development, and high investment to improve market share and to achieve a competitive position. Covin and Covin (1990) point out that some evidences of competitive aggressiveness can be reached when evaluating the management attitude as far as competitiveness is concerned. This evidence can also reflect the use of non-conventional competition methods instead of traditional or reliable ones (Lumpkin & Dess, 1996).

## **CONCLUSION**

Corporate entrepreneurship is the process by which members of an established organization create and manage new businesses, strategies and initiatives that are distinct from the parent company. When entrepreneurship is present within an established organization members of the firm are innovative, risk taking, autonomous, proactive and aggressive in light of competitiveness. The five forms of corporate entrepreneurship used in this paper are; organizational rejuvenation, strategic renewal, domain redefinition, sustained regeneration, business model reconstruction and corporate venturing. From literature review, the study concludes that the intensive usage of corporate entrepreneurship in enterprises generally increases the efficiency of doing business by creating new products and services, shortening the time to get to the market, reducing the costs, decreasing the prices and more efficiently, responding to the moves of the competitors and market changes.

## **RECOMMENDATION FOR FURTHER STUDY**

It is recommended that empirical studies should be carried out using various criterion variables within different industrial sectors in Nigeria so as to test the validity of the concepts reviewed in this paper.

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