Paper to the ESU-conference at University of Seville, Spain, 12 - 17 September 2011

Corporate entrepreneurship and rent creation: an integration of perspectives

Jorunn Grande

Contact information:
Jorunn Grande
Nord-Trøndelag University College
Servicebox 2501
7729 Steinkjer
Norway
E-mail: jorunn.grande@hint.no

ABSTRACT

Firms engage in corporate entrepreneurship to increase competitiveness and sustain performance through rejuvenation, renewal, and redefinition of their organizations, markets, or industries. This is challenging to most firms, since it often involves new relations to customers, suppliers and contact with less familiar industries. The reward for successful CE engagement should be a more profitable firm. However, the potential to new value creation and competitive advantages may originate from different sources within the firm and is quite complex. Thus, even if the relationship between CE and performance has been well researched and documented, there seem to be less understanding of the reasons *why* CE may produce superior performance. CE may leverage several bases of competitive advantage. This conceptual study argues that these bases may be explored through the entrepreneurial orientation (EO), resource based (RBV) and dynamic capability (DC) perspectives. The study links the RBV, EO and DC perspectives respectively to Richardian, Entrepreneurial and Austrian rents. Each of these perspectives may thus provide their unique insight into how entrepreneurship may create new rent streams and improve performance in firms. In total the study contributes to further understanding of how and why CE may lead to superior performance in firms.

1 INTRODUCTION

Firms engage in corporate entrepreneurship (CE) to increase competitiveness and sustain performance through rejuvenation, renewal, and redefinition of their organizations, markets, or industries (Covin and Miles, 1999). This is challenging to most firms, since it often involves new relations to customers, suppliers and contact with less familiar industries. The reward for successful CE engagement should be a more profitable firm. However, the potential to new value creation and competitive advantages may originate from different sources within the firm and is quite complex. Even if the relationship between CE and performance has been well researched and documented, there is according to Covin and Miles (1999) less understanding of the reasons *why* CE may produce superior performance. To extend knowledge on this issue this conceptual study perceive CE to be an overarching perspective and tool for analysing how new profit (rent) may be created and captured by firms engaging in entrepreneurial activities. Under the CE umbrella the entrepreneurial orientation (EO), resource based view (RBV) and dynamic capability (DC) perspectives are integrated since each of them may represent a unique source for sustaining competitive advantage and superior performance in firms.

The paper proceeds as follows. First the content of CE and its link to performance is explained. Then the concept of rent and various types/sources of rent are explained and linked to theories of CE (EO, RBV and DC). This is followed by a brief view of the content EO, RBV and DC perspectives. The paper ends by discussing and concluding on how these perspectives each yield unique insight but together also complementing insight, on how and why CE may lead to superior performance in firms.

2 CORPORATE ENTREPRENEURSHIP (CE)

Based on the expected positive influence on the renewal and performance in existing firms, entrepreneurial efforts in an organizational setting have received increased attention among scholars in the last decades (Miller, 1983; Covin and Slevin, 1989; Lumpkin and Dess, 1996; Wiklund, 1999; Wiklund and Shepherd, 2003; 2005). It should be noted that a range of terms and definitions are used to describe entrepreneurial efforts within an organizational context.

Terms often used are intrapreneurship (Antoncic and Hisrich, 2003), strategic renewal (Sharma and Chrisman, 1999), corporate entrepreneurship (Zahra, 1995) and entrepreneurial orientation (Lumpkin and Dess, 1996). This study has selected the term corporate entrepreneurship (CE) as an overarching perspective and label of entrepreneurial efforts inside existing firms. The definition of Sharma and Chrisman's (1999, p. 18) is further adapted, which states that CE is *"...the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization".* CE is thus considered a process where an individual or group of individuals, in the context of an existing firm, create innovative resource combinations (Elfring, 2005). CE thus recognises that the entrepreneurial initiative has emerged from or within an already existing organisation rather than appearing only as an independent individual act. In addition to requiring individuals with particular entrepreneurial behaviour within the firm, the firm must also possess an organisational environment that tolerates and supports these activities (Elfring, 2005).

By browsing through the literature we find descriptions of the content like; organizational creation (Sharma and Chrisman, 1999), processes and activities that leads to new entry (Lumpkin and Dess, 1996), innovation and venturing (Zahra, 1993), departing from the customary (Antoncic and Hisrich, 2003), creation of new wealth through new combination of resources (Guth and Ginsberg, 1990), proactive innovations and risk taking (Miller, 1983). These all describe how entrepreneurship may be undertaken inside an existing firm.

2.1 CE and performance

Firms engage in corporate entrepreneurship to increase competitiveness and sustain performance through rejuvenation, renewal, and redefinition of their organizations, markets, or industries (Covin and Miles, 1999). This is challenging to most firms, since it often involves new relations to customers, suppliers and contact with businesses in other industries. However, the reward for successful CE engagement should be a more profitable firm. The relationship between CE and performance has been well researched and documented, but according to Covin and Miles (1999) there is less understanding of the reasons *why* CE may produce superior performance. When expected returns are not obtained this might indicate a lack of understanding of what constitutes the potential origins for creating new competitive advantage in this sector.

Covin and Miles (1999) argue that there are seeds of competitive advantage in each of their four typologies. They also suggest that these advantages are related to the organizational actions behind the CE phenomenon which again are often linked to recognized bases of competitive advantage. They further claim that all typologies of CE will represent appropriate, defensible, and value enhancing behavior to all firms in any given competitive context. The latter argument also suggests that more conservative firms should benefit from CE behavior and strategies, even if other scholars have had less confidence in this (Hart, 1992; Smart and Conant, 1994). Covin and Miles (1999) further explain that an organizational rejuvenation in general may improve the firm's implementation of a new diversification strategy that already has led to some improvement in performance and thus further optimize benefits from this strategy.

Hamel and Prahalad (1989) also argue that CE will leverage multiple bases for its advantage, since high performance often are the results of firms that are able to "layer" several bases of firm competitive advantage. Finally, Alvarez and Busenitz (2001) explain that through better entrepreneurial efforts and skills, firms may utilize their resources more efficiently by discovering alternative uses of possessed resources and increase their awareness towards new opportunities in the environment. In total this suggests that CE should have a

great potential for giving important insight on which are critical resources and capabilities for making farm entrepreneurship successful.

This study builds on and extends above theory by discussing the concept of rent as the outcome of corporate entrepreneurship. Exploring the concept of rent may aid the understanding of different potential sources to new competitive advantages and thus indicate how new income streams and superior performance may be created in firms. This should contribute to a better understanding on how and why CE may lead to superior performance.

3 OUTCOMES OF CE – GENERATION OF RENTS

In classical economics the ability to generate rent has early been considered one of the most important attribute to resources and the term rents has been used as a common denominator for profits to resource owners. As explained earlier, engagement in CE is expected to increase the firms' potential to generate new rent and superior profits in firms. In general rent may be referred to as *"excess returns to resources that are limited in supply"* (Schoemaker, 1990, p. 1178) or as *"return in excess of a resource owner's opportunity cost above-normal rates of return"* (Mahoney and Pandian, 1992, p. 364). Thus, it is the proportion of earnings in excess of the minimum cost needed to enter a specific industry. Rents may be generated from possessing scarce and unique resources in a static world, but might also arise from innovative efforts disrupting this static picture according to Schumpeter's theory on creative destructions (Alvarez and Barney, 2004; Schumpeter, 1939). Thus the definition and description various type of rents may thus aid us in the process of understanding why some firms earn profit and some firms not (or a lot less).

Profits that originate from unique resources may be related to economic rents. The nineteenth century British economist David Ricardo found that when resources are scarce, differ in quality and are more or less accessible they have a potential to generate rents to their resource owners (Galunic and Rondan, 1998; Knudsen, 2003). Ricardo developed his theory on rent based on examples from agriculture where he observed differences in profits to landowners related to different quality of land. This type of rent is commonly labelled Ricardian rent. Some resources are limited in supply and may also vary in quality such they are more expensive to extract or harvest compared to others. Ricardian rent may thus include value attached to ownership of valuable land, locational advantages, patents and copyrights (Mahoney and Pandian, 1992). Depending on the strength of the isolating mechanisms[1] (barriers to imitation), the stability in supply or demand, resource owners (firms) may be able to sustain this rent.

Another source to new value creation may rise from entrepreneurial efforts in firms. Previous advantages based on unique resources may be destroyed in long run, and to sustain profit and competitiveness firms need to find new ways of generating rent. Ricardian rent typically reflects a static picture and markets in equilibrium. However, when this static picture is disrupted, for instance by a Schumpeterian innovation, Ricardian rents may also change (Darroch et al., 2005). A new discovery of a resource (i.e. a metal substitute), innovations or change in consumer needs may leave previously valuable resources obsolete and useless such that previous Ricardian rents evaporate. To survive and sustain competitiveness the firm then need to find new sources to generate profit.

In periods of turbulent and changing environments firms thus need to create new rent through exploration of new opportunities, risk taking, innovations and pro-active efforts in

[1] For a comprehensive overview of isolating mechanisms se table 1 in Mahoney and Pandian and also Alvarez and Barney 2004.

order to survive. This rent is called entrepreneurial or Schumpeterian rent after the work of Schumpeter on disruptive innovations (Galunic and Rondan, 1998; Mahoney and Pandian, 1992). Alvarez (2007) explains that entrepreneurial rent is returns primarily to risk and uncertainty, and defines it to be *"the value created when economic actors combine resources in new and different ways, and when these resource combinations are not known ex ante"* (Alvarez, 2007, p. 431). The positive income effects related to entrepreneurial activities may therefore be related to the generation of rent accruing from new innovations and market disruptions. In this way new resources or new uses of resources may be discovered.

When looking at the sustainability of the newly created entrepreneurial rent, parts of it are explained as inherently self-destructive due to diffusion of knowledge. Other parts of the entrepreneurial rent may however contain a new Ricardian rent and thus a more lasting rent, emerging from the discovery of new valuable resource combinations unique to the firm (Darroch et al., 2005; Alvarez and Barney, 2004). Entrepreneurial rents may thus be divided in two main parts; payment to arbitrage and to innovations (Ross and Westgren, 2005; Alvarez, 2007)[2]. Arbitrage occurs in a situation where *"an economic actor already controls all resources necessary to generate the rents associated with a market opportunity"* (Alvarez and Barney, 2004, p. 624), while an innovation reflects shifts in either demand or supply curves. Rents from arbitrage are typically more vulnerable to competition and thus likely to dissipate as an innovation diffuses in the market.

According to Alvarez (2007), it is not evident that firms are able to appropriate all rent that may be generated from discoveries and innovations. The reason is that the value of entrepreneurial rents may not be known when they are created, and depending on how easy the new inventions are to imitate, competitors might also capture part of this rent. This means that entrepreneurial alertness may create new rent streams to the firm, but it is not always obvious how firms should optimize the advantage of their new innovation. A critical issue is the firms' ability to appropriate the rent that is generated through their entrepreneurial and innovative efforts (Alvarez, 2007). This vulnerable part of entrepreneurial rent may be called Austrian or Monopoly rent, which makes a connection to superior management and the ability to protect the firm from competition (Alvarez and Barney, 2004). For instance, the knowledge of and use of effective isolating mechanisms as well as the building of new strategic alliances might help the firm in protecting the rent from dilution to aggressive competitors (Teece et al., 1997). Optimal appropriation of rent may require effective integration of new resources and knowledge, and might demand significant changes in the operation of the firm. The firms' ability to effectively initiate and effectuate changes is thus likely to be of critical importance in optimizing appropriation of rent.

The above discussion of rent should yield further insight into the unique elements in CE that may create competitive advantage and superior profit to business enterprises. It shows that the potential to new value creation and competitive advantages may originate from different sources within the firm and is quite complex. To optimize benefits from business rejuvenation firms need knowledge of resources, entrepreneurial efforts and the appropriation of rent. Exploring these fundaments should thus have a great potential for adding further in-depth insight into several distinguishable sources to profit when firms engage in new business models.

When firms engage in corporate entrepreneurship several sources to profit may thus be activated as suggested by Table 1, which indicate a link between different types of rents and

---

[2] Entrepreneurial rent is often called Schumpeterian or Austrian rent based on these two parts. These terms might thus have different content, but is often used interchangeably in literature and the precise meaning of rent might differ between authors (Schoemaker, 1990). For instance, Austrian rent is often related to the arbitrage part of entrepreneurial rent (Darroch et al., 2005), but sometimes the Entrepreneurial and Schumpeterian rent is also used in the labeling this part of rent.

theories of CE. First of all there is a rent that based on payment to unique resources. Second, there is rents that based on payment to innovation, risk and uncertainty. Finally additional rents may be gained from superior management and arbitrage strategies which optimize appropriation of rent that may dissipate to competitors. To get further insight into these different sources profit and rent this study has integrated the EO, RBV and DC perspectives to get a better understanding of how CE may leverage several sources of profit (as explained by Hammel and Prahalad, 1989). These perspectives all focus on explaining how firms may sustain their competitive advantage and gain superior profits, but they also give each their distinct piece of information towards increased knowledge and understanding into the complex issue of how new value is created, appropriated and sustained. Table 1 gives an overview of various types of rent and their relation the scientific perspectives of EO, RBV and DC. This illustrates that the three perspectives may each be related to their unique source of rent creation in firms. The EO, RBV and DC perspectives are presented and discussed in the next sections in this chapter.

Table 1 Rent creation and theories of CE

Types of rent and their content	Intelectual roots	Theories of CE
Ricardian rent *(May include Marshallian or Paretian rents)* • Rents earned from resources in fixed or limited supply • Payments to resources and capabilities that are unique to the firm and cannot be incrementally dissipated • Ricardian rents might be destroyed by a Schumpeterian innovation	Ricardo, 1821 Marshall, 1920	**Resources-based view (RBV)** Explains returns to unique resources
Entrepreneurial rent (*Also called Schumpeterian rent and includes Austrian rent)* • Is the ”value created when economic actors combine resources in new and different ways, and when these resource combinations are not known ex ante” (Rumelt, 1987) • Rents created when new resources or uses of resources (new resource combinations) is discovered • Are returns to risk and unceratinty (Alvarez, 2007) • Composed of Ricardian and Austrian rents; payments to innovations and arbitrage	Schumpeter, 1934 Rumelt, 1987	**Entrepreneurial orientation (EO)** Explains returns to innovations, risk and uncertainty
Austrian and/or monopoly rent *(Entrepreneurial rent that is not Ricardian)* • Enables appropriation of rent (Austrian rents) subject to dissipation by imitators and attracting entry by competitors (Alvarez and Barney, 2004) • DC protects Austrian rent from competitors by applying isolating mechanisms • Capture rent by developing arbitrage strategies (Ross and Westgren, 2006)	Schumpeter, 1934 Teece et al., 1997	**Dynamic capability (DC)** Explains returns to superior management

4 PERSPECTIVES OF CE

4.1 Entrepreneurial orientation (EO)

Due to the increased attention to entrepreneurship inside existing firms the concept entrepreneurial orientation (EO) has emerged as an important device for studying, describing and evaluating entrepreneurial efforts within existing firms the last two decades. Lumpkin and Dess (1996, p. 136) explain EO as *"...the processes, practises, and decision-making activities that lead to new entry"*, and further that it *"... involves the intentions and actions of key players functioning in a dynamic generative process aimed at new-venture creation"*. EO is therefore used to characterize a set of related processes in firms, including a variety of activities related to identification of new opportunities and subsequent investment in the resource base (Alvarez and Busenitz, 2001). In short, the literature defines EO as a firm level phenomenon (Lumpkin and Dess, 1996) and is also often described as the mind-set of firms involved in the pursuit of new ventures (Rauch, Wiklund, Frese and Lumpkin, 2004).

The field seems to agree to conceptualize EO as having from three (Covin and Slevin, 1989; Wiklund, 1999; Madsen, 2007) to five dimensions (Lumpkin and Dess, 1996; Hughes and Morgan, 2007) that might vary independently of each other. These are 1) a propensity to act autonomously, 2) a willingness to innovate, 3) a willingness to take risks, 4) a tendency to act aggressively towards competitors and 5) a pro-activity towards market opportunities (Lumpkin and Dess, 1996). Here autonomy is understood as the independent actions undertaken by entrepreneurial leaders or teams to bring about a new venture and see it realized. The innovative dimension captures the tendency toward embracing and supporting creativity and experimentation, technological leadership, novelty and R&D in the development of products, services and processes. The autonomy and innovativeness dimensions also represent an alertness to profit opportunities and exercising of superior judgement and intuition in the firm (Ross and Westgreen, 2006). The risk-taking dimension reflects an acceptance of uncertainty and risk related activities and is typically characterized by resource commitment to uncertain outcomes and activities. This reflects that value is created from the ability to take risk and bear uncertainty (Ross and Westgreen, 2006). Competitive aggressiveness conveys the intensity with which a firm chooses to compete and its' efforts to surpass competitors. Finally, pro-activeness is related to a forward-looking perspective where companies actively seek to anticipate opportunities to develop, and are eager to introduce new products in the market to obtain first mover advantages and shape the direction of the environment. It differs from the competitive aggressive dimension in that it is not directed towards competitors but relates more to market opportunities (Lumpkin and Dess, 1996). As shown in Table 1 this perspective may be linked to entrepreneurial rent which may provide a further understanding of why EO may lead to superior performance in firms.

4.1.1 EO and performance

The main assumption behind the EO concept is that all firms fall along an action continuum that ranges from highly conservative to highly entrepreneurial (Barringer and Bluedorn, 1999). Entrepreneurial firms are explained as being risk taking, innovative and proactive, whereas more conservative firms are described as risk averse, less innovative and typically adopt a "wait and see posture" (Barringer and Bluedorn, 1999). It follows from this that firms with an entrepreneurial orientation are more likely to introduce as well as gain from innovations than more conservative firms. The predominant evidence in literature also shows that firms with a high score on entrepreneurial orientation perform better than firms with a lower score (Covin and Slevin, 1991; Wiklund, 1999; Wiklund and Shepherd, 2003; 2005;

Keh, Nguyen and Ng, 2007; Madsen, 2007). A study of business founders by Frank, Lueger and Korunka (2007) found a positive relationship between risk propensity and success. They attribute this positive effect of a greater risk propensity to be an indirect learning effect of facing risk, and explain that this is likely to increase both the *"ability and willingness of the founder to handle risky situations"* (Frank, Lueger and Korunka, 2007, p. 242).

However, some scientists argue that a high EO also might lead to adverse effects to the firm in certain situations (Smart and Conant, 1994; Hart, 1992). It is easy to understand that the risk dimension might have both negative and positive effects on performance. A willingness to take on more risk means a greater chance for gains as well as losses, and it might take time to learn from it. Previous studies suggest that an extremely high EO also might have negative effects on performance, indicating that a moderately high EO, including moderate risk, moderate innovation and moderate pro-activity might be most profitable (Bhuian et al., 2005). Worth noting also is that when facing turbulent markets some resources such as access to financial capital, might indirectly influence the relationship between EO and performance and in this way limit the adverse effects of risk.

4.2 The resource based view (RBV)

Entrepreneurship involves new resource combinations (Burgelman, 1983). Here the RBV focuses on the uniqueness of resources as critical for creating new rent streams to firms (Alvares, 2007; Alvarez and Barney, 2004). The resource based view (RBV) has emerged as an important perspective and instrument for understanding, finding and evaluating possible business opportunities and resource needs in firms (Penrose, 1959; Barney, 2002). The RBV builds on the foundation that the critical elements for strategic change and creation of long run competitive advantages often are found in the internal resource configuration of the firm (Rumelt, 1991; Borch, Huse and Senneseth, 1999). In her early work, Penrose (1959) argued that even if firms have similar factor endowments, there exist different mechanisms for resources combination and utilization that results in heterogeneity among firms. More recent strategy research also indicates that there are greater differences in profits between firms within an industry compared to the differences that exist between industries. By identifying and acquiring resources that are critical to the development of demanded products, firms may earn above normal earnings (Wernerfelt, 1984). Thus the RBV approach focuses on rents stemming from owners of scarce resources that are firm specific rather than the profits based on positioning in product markets (Teece et al., 1997). The seminal elements of the RBV approach are then found in Penrose's "The Theory of the Growth of the Firm" (Penrose 1959), but the earliest attempts to describe and apply it as an independent perspective are found in Rumelt (1984), Teece (1984), Wernerfelt (1984) and Barney (1986). Since then, research within the RBV has received great attention from scholars both empirically and conceptually and is now perceived to be one of the most widely accepted theoretical perspectives within the field of strategic management (Priem and Butler, 2001; Newbert, 2007).

According to the RBV the firm's ability to build new competitive advantages and explore new markets depends on its available resources and its ability to develop both physical and human resources (Barney, 1991; 2002). The RBV conceptualizes the firm as a bundle of resources, where different resources vary in their importance for generating added value to the firm. The main message in the RBV is that firms with valuable, rare and inimitable (VRI) resources have the potential to achieve superior performance (Barney, 1991; 2002). This means that the resources must possess some kind of value or capacity that gives advantages to the firm compared to others. In this way some firms may be better fit than others to pursue

certain opportunities in market or in fighting particular threats in the environment (Newbert, 2007). The RBV thus assumes that firms are heterogeneous with respect to which resources and capabilities they possess, and that these resources and capabilities are not easily moved or copied between firms. To sustain these resource advantages over time they must also be inimitable and non-substitutable (Dierickx and Cool, 1989; Barney, 1991). These assumptions allows for differences in firm resource endowments to exist and persist over time (Newbert, 2007), such that the firm's unique resource bundle may provide a fundament for developing new firm strategies and lasting competitive advantages. The RBV then provides a further understanding of what constitutes uniqueness in resources thus linking it to Richardian rent as suggested in Table 1.

4.2.1 The RBV and performance

Uneven access to physical assets like natural resources and financial capital may give firms significant competitive advantage, but in order to extract this value the firms must also put their assets into use (Penrose, 1959; Newbert, 2007). Resources may not be of much value in themselves since applying the resources is equally important as possessing them. Resource heterogeneity thus often originates from how the firm structures, bundles and leverages its resources (Sirmon, Hitt and Ireland, 2007). This means that value is created only when resources are manipulated, evaluated and deployed appropriately within the firm's environmental context (Sirmon, Hitt and Ireland, 2007). Different management of resources may therefore produce different outcomes in firms with similar resources and environmental conditions (Zott, 2003). Recent research has also recognized the importance of organizational resources to enable firms to extract these advantages, adding an important "O" to the first VRI framework (Barney, 2002; Newbert, 2007). In this way the firm's unique assets, whether representing physical, knowledge based or positional advantages, represent the firm's potential to generate new competitive advantages and surplus rents. These are much the same characteristics as Rumelt (1984) calls isolating mechanisms[3], which suggest that a more general access to these resources will neutralize the firms' competitive advantage. Thus, resource heterogeneity needs to be sustained over time; otherwise the firm's competitive advantage will cease to exist.

A crucial question when firms need to develop new strategies and new business ventures is how to locate and develop their unique resources based on upcoming needs and opportunities in the market. Establishing a new business venture often means looking at the firm's resources in new ways such that new attributes and characteristics may be discovered and developed. Resources have to be combined in different ways in order to find new competitive advantages in new markets. Depending on which uses and for whom, a resource might have significantly different values for different people and businesses. Thus, development of resources in this context might mean taking a different view on an existing resource as well as physically changing the resource. The firm's ability to explore the unique characteristics of its resource base may therefore be critical to its sustained performance (Priem and Butler, 2001).

4.3 The dynamic capability perspective (DC)

A critical question is how to appropriate rent generated from entrepreneurial efforts and new resource combinations. The scientific perspective on dynamic capabilities (DC) yields insight

[3] For a comprehensive overview of types of isolating mechanisms look at Table 1 in Mahoney and Pandian 1992.

into this issue. The DC perspective provides a framework for understanding the mechanisms and processes in firms that need to undergo change and create new value as diversifying farms do. The RBV has generated significant insight into the importance of resources to firms (Newbert, 2007), but its static nature puts limitations on its applicability to dynamic environments and to the understanding of firms that need to change. By considering the firm as a specific resource bundle, some researchers argue that dynamic processes such as organisational learning, resource acquisition and knowledge integration, have received too little attention in the traditional RBV (Eisenhardt and Martin, 2000; Zahra et al., 2006; Newbert, 2007). Together with influence from other theoretical approaches like organisational learning theory (Argyris and Schon, 1978) and evolutionary economics (Nelson and Winter, 1982) the dynamic capability (DC) approach have thus emerged as a further extension and supplement to the RBV.

The main focus in the DC perspective is on the type of processes used by firms to exploit resources rather than on the resources themselves (Newbert, 2007). In this way DCs enable firms to alter and renew their resource base (Ambrosini and Bowman, 2009). When exploring and seizing new opportunities firms often need to change the way they operate. Engagement in new markets, developing and selling new products and services often demand quite different use of resources and might also require changes in how the firm is organized and how it operates (Easterby-Smith et al., 2009). Knowledge of the dynamics and mechanisms bringing about these changes enabling the firm to adapt to turbulent environments is likely to be of great importance to firm performance.

The major concern within the DC approach is the mechanisms and processes which align the firm to changing and turbulent environments (Grant, 1996; Eisenhardt and Martin, 2000). Teece et al. (1997, p. 515) defined first DC as: *"...the firm's ability to integrate, build, and reconfigure internal and external competence to address rapidly changing environments"*. A more clear link to resources is found in a more recent and refined definition given by Helfat et al. (2007, p. 4) which explains DC as *"the capacity of an organisation to purposely create, extend and modify its resource base"*. Based on this, DC may be explained as processes embedded in firms enabling business managers to co-ordinate and exploit its resources (Teece et al., 1997; Eisenhardt and Martin, 2000; Winter, 2003). DCs may therefore be explained as critical in the sense that they create change and renewal of the firm by enabling it to alter its resources base.

DCs are not only critical to possess in an innovative situation, but also perceived to be the hardest ones to get hold of (Borch et al., 2005). They are often tacit in nature and not always easily observed. They are unique to each firm and give the foundation for its ability to initiate and perform innovative processes. Examples of DCs mentioned in the literature are business networks, strategic orientation, educational routines and research (Teece et al., 1997; Eisenhardt and Martin, 2000); resource acquisition, resource reconfiguration and integration, learning network and strategic path aligning (Madsen and Borch, 2007). Looking back to the RBV, this suggests that possessing appropriate DCs should help the firm in releasing ineffective resources such that they do not hinder effectiveness and success of new ventures. In this way, the adverse effects of a less appropriate resource base might also be limited.

Even though the discussions above show that the DC approach is still in its infancy, the many contributions especially in recent years also indicate that DCs are increasingly recognized as critical in explaining competitive advantage within strategy research (Arthurs and Busenitz, 2006; Cepeda and Vera, 2007). The DC perspective has even been called the Holy Grail of strategic management because it deals with the most fundamental and difficult issue on how firms may *"...sustain a competitive advantage by responding to and creating environmental change"* (Helfat and Peteraf, 2009, p. 91). As Newbert (2008, p. 7) argues "resources do not explore themselves", indicating that other mechanisms need to be present in

firms to explore and evaluate their resources according to emerging needs and possibilities. However, DCs are not only critical in an innovative situation, but also quite often hard to identify and get hold of (Easterby-Smith et al., 2009; Zahra et al., 2006). They are often tacit in nature and not always easily observed. The DC thus enables appropriation of rent created form unique resources and entrepreneurial efforts and may be linked to Austrian rent as suggested in Table 1.

4.3.1 DC and performance

Prior research suggests that DCs also are important for the creation and evolution of *new* business ventures (Newbert, 2005). According to Helfat and Peteraf (2009) DCs may have both a direct and an indirect effect on business performance and competitive advantage. The direct effect may be obtained through superior management, such as selecting appropriate strategies, building strategic alliances and making the right decisions. DC may also be seen as the ability to apply isolating mechanisms to protected superior rents from dilution to competitors (Teece et al., 1997). Through DCs business enterprises should thus be better at creating, deploying, and protecting their intangible asset to support superior long-run business performance (Teece, 2007). Zollo and Winter (2002, p. 341) also assumed a direct link between DC and superior performance when they argued that "*both superiority and viability will prove transient for an organization that has no dynamic capabilities*" (Barreto, 2010).

Others argue that DCs are mainly indirectly linked to performance by modifying the firms' bundle of resources or routines (Zott, 2003). This link is also seen in previous definitions of DCs where they are explained as processes that firms can use to obtain, integrate, reconfigure and release resources (Eisenhardt and Martin, 2000). This role is in particular important with regard to entrepreneurial actions. As Teece (2007, p. 1319) explains: *"Entrepreneurial management has little to do with analyzing and optimizing ... - it is more about figuring out the next big opportunity and how to address it"* Teece (2007, p. 1319). Here DCs may provide a fundament for optimizing benefits from entrepreneurial actions by facilitating integrating of resources and new resource reconfigurations. In one way capabilities may be thought of as the efficiency in which a firm uses the resources available to it (Dutta et al., 2005).

5 DISCUSSION - A COMPLEMENTING VIEW

The discussion of the sources of rent creation in firms and their links to the respective scientific perspectives of EO, RBV and DC, demonstrates that they all provide interesting views and in-depth insights into how new value may be revealed and created in firms. Through investigation of entrepreneurial actions and attitudes we get signals of the firms' creativity and ability to renew and explore own resource bases aligned to the needs and opportunities in the market. Their entrepreneurial alertness and mind also make them in better shape to discover and explore unique resources. Furthermore, investigation of resources through the RBV gives a foundation for understanding which type of resources that appears to be most critical to the firm, that is, which type of resources that appear to be valuable, rare and contributing to the formation of unique and heterogeneous resource bundles. Finally, through building of appropriate DC additional profits might be generated by enabling the firm to find the most effective ways appropriating rent from new discoveries and innovations. Thus, the DC perspective provides a better understanding of the processes and routines that are critical in forming and supporting these changes.

In some respects the concepts might partly overlap and compete (Grande, 2008), but most important, the EO, RBV and DC perspective have each their unique hallmarks providing in-depth insight into what constitutes the source of profit in firms. Both the RBV and its extension into the DC perspective have been criticized for falling short in integrating creativity and the entrepreneurial act (Alvarez and Busenitz, 2001; Arthur and Busenitz, 2006). Thus more knowledge about entrepreneurial actions, i.e. how ideas are generated and new resources are explored, should be a valuable supplement to the RBV by suggesting alternative use of resources not previously discovered (Alvarez and Busenitz, 2001).

In periods of (environmental) change and decreasing returns, firms may benefit from possessing proper DC since these may enable the firm to initiate entrepreneurial efforts when such efforts are appropriate and needed. Thus, new income streams may be generated. However, change might also mean to be more conservative and less risk taking in periods of less turbulence such that appropriate DC might also be to adjust systems to be more conservative and invest less in entrepreneurial efforts. The task of DCs is then to adjust systems and routines such that the firm "does the right things to the right time". In this way timing and level of entrepreneurial efforts might be more appropriate and efficient when changes are needed.

Some researchers claim that both RBV and EO-perspective raises ambiguity regarding to which degree superior management is involved. For instance Covin et al. (2006) and Jun (2006) suggest that major shortcomings of the EO-construct are on the management side and on risk handling (Covin, Green and Slevin, 2006; Jun, 2006). These issues relate to elements that are central in the DC perspective. By integrating the EO and DC perspective this ensures taking into account the importance of superior management, such that adverse effects of, for instance, risk might be limited. As discussed previously EO builds a fundament for change through innovative, proactive and sometimes risky actions. These actions may not always be optimal after the initial phase. As Teece (2007, p. 1319) explains "*Entrepreneurial management has little to do with analyzing and optimizing ... - it is more about figuring out the next big opportunity and how to address it"*. This suggests that DCs may provide a fundament for optimizing benefits from entrepreneurial actions. While entrepreneurial activities look for new opportunities, appropriate DCs ensures that the firms also exploit these opportunities sufficiently and limit the hazardous effect or risk taking.

Table 2 illustrates the main hallmarks and research issues related to the EO, RBV and DC perspectives. The lenses of these perspective should open up for a more in depth investigation of how and why CE may create superior profit to firm. In this way the role of firms existing resources base might be better understood, the importance and effect of their entrepreneurial efforts easier revealed, as well as their ability to handle change and fulfill new strategies. By bringing these concepts together there should be a great potential for a comprehensive investigation yielding better understanding of the complex issue of how to optimize rent generations from new business ventures and organizational rejuvenation.

Table 2 Complementing perspectives of CE – main characteristics

	Entrepreneurial orientation (EO)	**Resource based view (RBV)**	**Dynamic capability (DC)**
Main content/ focus	Characteristics of entrepreneurial firms. High EO is beneficial to performance.	Unique resources as foundation for a sustained competitive advantage	Mechanisms and routines that enable change. Superior management.
Dimensions	Pro-activity, innovativeness, risk taking, autonomy, competitive aggressiveness.	Resources need to be valuable, rare, inimitable and organized appropriately	Explore and exploit Integrate and release resources Alliancing Market orientation
Unit of analysis	Firm	Firm, resources	Firms, processes, paths
Dependent variable	Superior performance	Competitive advantage, superior performance	Competitive advantage, superior performance, first sales
Main research issues	Creativity and identification of new opportunity and the subsequent investment to the resource base	Which type of resources may give advantages to firms Attributes of resources Explore resource base	Adjustment and reconfiguration of resources connected to an extant opportunity. How firm develop skills and competencies to gain and endure competitive advantage
Type of rent	Schumpeterian Ricardian	Ricardian	Schumpeterian (the Austrian part, see footnote 2) Partly monopolistic

6 CONCLUSIONS

This study thus adds further insight into CE in general through its combinations of EO, RBV and DC perspectives and through theorizing on the concept of rent as the outcome of corporate entrepreneurship. Rents may be generated from possessing scarce and unique resources in a static world, but might also arise from innovative efforts disrupting this static picture according to Schumpeter's theory on creative destructions (Alvarez and Barney, 2004, Schumpeter, 1939). Thus, the EO, RBV and DC perspectives each provide their unique insight into how entrepreneurship may create new rent streams and improve performance in firms. Together these perspectives may provide a more complete picture on how a firm's internal factors may interact in new value creation processes. Through CE firms may thus leverage several bases of competitive advantage, as suggested by Covin and Miles (1999). This study argues that these bases may be explored through the RBV, DC and EO perspectives. The combination of perspectives as presented in this paper may also help

identify and explore profit opportunities when evaluating new business ideas and models. In total the study contributes to better understanding of how and why CE leads to superior performance in firms. Empirical studies related to these concepts and their possible interaction is suggested to add further knowledge.

7 REFERENCES

Alvarez, S.A. (2007). Entrepreneurial rents and the theory of the firm. *Journal of Business Venturing*, 22(3), 427-442.

Alvarez, S.A. and Barney, J.B. (2004). Organizing rent generation and appropriation: Toward a theory of the entrepreneurial firm. *Journal of Business Venturing*, 19(5), 621-635.

Alvarez, S.A. and Busenitz, L.W. (2001). The entrepreneurship of resource-based theory, *Journal of Management,* 27(6), 755-775.

Ambrosini, V. and Bowman, C. (2009). What are dynamic capabilities and are they a useful construct in strategic management? *International Journal of Management Reviews*, 11(1), 29-49.

Antoncic, B. and Hisrich, R. (2003). Clarifying the intrapreneurship concept, *Journal of Small Business and Enterprise Development,* 10(1), 7-24.

Argyris, C. (1978). *Organizational learning: a theory of action perspective*. Reading, Mass., Addison-Wesley.

Arthurs, J.D. and Busenitz, L.W. (2006). Dynamic capabilities and venture performance: The effects of venture capitalists. *Journal of Business Venturing,* 21(2), 195-215.

Barney, J.B. (1986). Strategic factor markets: Expectations, luck, and business strategy, *Management Science*, 32(10), 1231-1241.

Barney, J.B. (1991). Firm resources and competitive advantage. *Journal of Management,* 17 (1), 97-120.

Barney, J.B. (2002). *Gaining and sustaining competitive advantage*. Second edition, Prentice Hall, New Jersey.

Barreto, I. (2010). Dynamic capabilities: A review of past research and an agenda for the future. *Journal of Management*, 36(1), 256-280.

Barringer, B.R. and Bluedorn, A.C. (1999). The relationship between corporate entrepreneurship and strategic management. *Strategic management Journal*, 20(5), 421-444.

Bhuian, S.N., Menguc, B. and Bell, S.J. (2005). Just entrepreneurial enough: The moderating effect of entrepreneurship on the relationship between market orientation and performance. *Journal of Business Research,* 58, 9–17.

Borch, O. and Madsen, E., 2007. Dynamic capabilities facilitating innovative strategies in SMEs. *International Journal of Technoentrepreneurship*, 1(1), 109-125.

Borch, O.J., Huse, M. and Senneseth, K. (1999). Resource configuration, competitive strategies and corporate entrepreneurship: An Empirical Examination of Small Firms. *Entrepreneurship Theory and Practice,* 24, 49-70.

Borch, O.J., Madsen, E.L. and Rasmussen, E. (2005). Strategisk entreprenørskap – organisatoriske mekanismer for nyskaping i et etablert foretak. *Magma,* 8(2), 34-49.

Burgelman, R.A. (1983). A model of interaction of strategic behavior, corporate context, and the concept of strategy. *Academy of Management Review*, 8(1), 61-70.

Cepeda, G. and Vera, D. (2007), Dynamic capabilities and operational capabilities: A knowledge management perspective. *Journal of Business Research,* 60(5), 426-437.

Covin, J.G. and Miles, M.P. (1999). Corporate entrepreneurship and the pursuit of competitive advantage. *Entrepreneurship Theory and Practice,* 23(3), 47-63.

Covin, J.G. and Slevin, D.P. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal,* 10, 75-87.
Covin, J.G. and Slevin, D.P. (1991). A conceptual model of entrepreneurship as firm behavior. *Entrepreneurship Theory and Practice*, 16(1), 7-25.
Covin, J.G., Green, K. M. and Slevin, D. P. (2006). Strategic Process Effects on the Entrepreneurial Orientation-Sales Growth Rate Relationship. *Entrepreneurship Theory and Practice,* 30(1), 57-81.
Darroch, J., Miles, M.P and Paul, C.W. (2005). Corporate venturing and rent cycle. Technovation, 25(12), 1437-1442.
Dierickx, I. and Cool, K. (1989). Asset stock accumulation and sustainability of competitive advantage. *Management Science,* 35(12), 1504-1511.
Dutta, D., Narasimhan, O. and Rajiv, S. (2005). Conceptualizing and measuring capabilities: methodology and empirical application. *Strategic Management Journal,* 26(3), 277–285.
Easterby-Smith, M., Lyles, M. A. and Peteraf, M. A. (2009). Dynamic capabilities: current debates and future directions. *British Journal of Management*, 20(s1), S1-S8.
Eisenhart, K. and Martin, J.K. (2000). Dynamic Capabilities: What are they? *Strategic management Journal*, 21(10-11), 1105-1121.
Elfring, T. (2005). *Corporate entrepreneurship and venturing.* ISEN International Studies in Entrepreneurship, Springer, US.
Frank, H., Lueger, M. and Korunka, C. (2007). The significance of personality in business start-up intentions, start-up realization and business success. *Entrepreneurship & Regional Development,* 19, 227-251.
Galunic, D.C. and Rondan, S. (1998). Resource recombinations in the firm: knowledge structures and the potential for Schumpeterian innovation. *Strategic Management Journal,* 19(12), 1193-1201.
Grande, J. 2008. Linking entrepreneurial orientation and dynamic capabilities: research issues and alternative models. In "*The Dynamics between Entrepreneurship, Environment and Education*." Eds. Kyrö, P. and Fayolle, A. Edward Edgar Publishing. (pp. 220-244).
Grant, R.M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation. *California Management Review*, 33, 114-135.
Grant, R.M. (1996). Prospering in dynamic-competitive environments: organizational capacity as knowledge integration. *Organization Science,* 7(4), 375-387.
Guth, W.D. and Ginsberg, A. (1990). Guest editors' introduction: Corporate entrepreneurship. *Strategic Management Journal*, 11 (Summer SI), 5-16.
Hamel, G and Prahalad C.K. 1989. Strategic Intent, *Harvard Business Review*, 67 (May/June), 63-76.
Hart, S.L. (1992). An integrative framework for strategy-making processes. *Academy of Management Review*, 17(2), 327-351.
Helfat, C. and Peteraf, M., (2009). Understanding dynamic capabilities: progress along a developmental path, *Strategic Organization* 7(1), 91-102.
Helfat, C., Finkelstein, S., Mitchell, W., Peteraf, M.A., Singh, H., Teece, D. and Winter, S. (2007). *Dynamic Capabilities understanding strategic change in organizations*. Malden, MA: Blackwell.
Jun, Z. (2006). *Development of theory on entrepreneurial orientation: empirical evidences from Hebei, China and Flanders, Belgium.* Doctoral dissertation. Department of Management and Entrepreneurship, Ghent University, Belgium.
Keh, H.T., Nguyen, T.T.M., and Ng, H.P. (2007). The effects of entrepreneurial orientation and marketing information on the performance of SMEs. *Journal of Business Venturing*, 22 (4), 592-611.

Knudsen, D. (2003). Aligning corporate strategy and e-procurement tools. International *Journal of Physical Distribution & Logistics Management,* 33(8), 720-734.

Lewin, S.E., and Phelan, P. (1999). An Austrian theory of the firm. *Review of Austrian Economics,* 13(1), 59-79.

Lumpkin, G.T. and Dess, G.G. (1996), Clarifying the Entrepreneurial Orientation Construct and Linking it to Performance, *Academy of Management Review*, 21 (1), 1-8.

Madsen, E.L. (2007). The significance of sustained entrepreneurial orientation on performance of firms - A longitudinal analysis. *Entrepreneurship & Regional Development,* 19, 185-204.

Madsen, E.L., Alsos, G.A., Borch, O.J., Ljunggren, E. and Brastad, B. (2006). *Developing entrepreneurial orientation – the role of dynamic capabilities and intangible resources.* The RENT-conference 2006, Bryssels, Belgium.

Mahoney, J. T. and Pandian, J. R. (1992). The resource-based view within the conversation of strategic management. *Strategic Management Journal*, 13(5), 363-380.

McKelvie, A., Davidsson, P. (2009). From resource base to dynamic capabilities: An investigation of new firms. *British Journal of Management,* 20, 63-80.

Miller, D. (1983). The correlates of entrepreneurship in three types of firms. *Management Science*, 29 (7), 770-91.

Nelson, R.R. and Winter, S. (1982). *An evolutionary theory of economic change*. Cambridge, Mass., Belknap Press.

Newbert, S.L. (2005). New firm formation: A dynamic capability perspective. *Journal of Small Business Management*, 43(1), 55-77.

Newbert, S.L. (2007). Empirical research on the resource-based view of the firm: An assessment and suggestions for future research. *Strategic Management Journal*, 28 (2), 121-146.

Newbert, S.L. (2008). Value, rareness, competitive advantage, and performance: a conceptual-level empirical investigation of the resource-based view of the firm. *Strategic Management Journal,* 29(7), 745-768.

Penrose, E. (1959). *The theory of the growth of the firm*. Basil Blackwell, London.

Priem, R.L. and Butler, J.E. (2001). Is the resource-based "view" a useful perspective for strategic management research? *Academy of Management Review,* 26(1), 22–40.

Rauch, A., J. Wiklund, M. Frese and G.T. Lumpkin (2004). Entrepreneurial orientation and performance: Cumulative empirical evidence. *The 23rd Babson College Entrepreneurship Research Conference*, Glasgow, UK, 4-6 June 2004.

Ross, R. B. and Westgren, R. E. (2005). Economic returns to entrepreneurial behavior. *Journal of Agricultural and Applied Economics*, 38(2), 403-419.

Rumelt, R.P. (1984). Towards a strategic choice of the firm. In Lamb, R.B. (ed), *Competitive Strategic Management*. Prentice Hall, Englewood Cliffs, NJ. Pp. 556-570.

Rumelt, R.P. (1987). Theory, strategy, and entrepreneurship. In Teece, D.J. (ed.) *The Competitive Challenge*. Ballinger: Cambridge, MA, 137–158.

Rumelt, R.P. (1991). How much does industry matter? *Strategic Management Journal*, 12(3), 167-185.

Schoemaker, P.J.H. (1990). Strategy, complexity and economic rent. *Management Science.* 36 (10), 1178-1192.

Schumpeter, J.A. (1934). *The theory of economic development*. Cambridge, Mass: Harvard University Press.

Schumpeter, J.A. (1954). *History of economic analysis.* Oxford University Press, New York.

Sharma, P. and Chrisman, J.J. (1999). Toward a Reconciliation of the definitional issues in the Field of Corporate Entrepreneurship. *Entrepreneurship Theory and Practice*, 23 (3), 11-27.

Sirmon, D.G, Hitt, M.A. and Ireland, R.D. (2007). Managing firm resources in dynamic environments to create value: looking inside the black box. *Academy of Management Review*, 32 (1), 273-292.

Smart, D.T. and Conant, J.S. (1994). Entrepreneurial orientation, distinctive marketing competencies and organizational performance. *Journal of Applied Business Research*, 10, 28-38.

Teece, D.J. (1984). Economic analysis and strategic management. *California Management Review*, 26(3), 87-110.

Teece, D.J. (2007). Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal*, 28(13), 1319-50.

Teece, D.J., Pisano G. and Shuen A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7), 509-533.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2), 171-180.

Wiklund, J. (1999). The sustainability of the entrepreneurial orientation - performance relationship. *Entrepreneurship Theory and Practice*, 24(1), 37-48.

Wiklund, J. and D. Shepherd (2003). Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses. *Strategic Management Journal,* 24(13), 1307-1314.

Wiklund, J. and D. Shepherd (2005). Entrepreneurial orientation and small business performance: a configurational approach. *Journal of Business Venturing,* 20(1), 71-91.

Winter, S. G. 2003. Understanding dynamic capabilities. *Strategic Management Journal*, 24(10), 991-995.

Zahra, S. A., Sapienza, H. J., and Davidsson, P. (2006). Entrepreneurship and Dynamic Capabilities: A review, Model and Research Agenda. *Journal of Management Studies,* 43(4), 917-955.

Zahra, S.A. (1993). Environment, corporate entrepreneurship, and financial performance: A taxonomic approach, *Journal of Business Venturing,* 8(4), 319-340.

Zahra, S.A. and Covin, J.G. (1995). Contextual influences on the corporate entrepreneurship performance relationship - a longitudinal analysis. *Journal of Business Venturing*, 10 (1), 43-58.

Zollo, M. and Winter, S.G. (2002). Deliberate learning and the evolution of dynamic capabilities. *Organization Science*, 13(3), 339-51.

Zott, C. (2003). Dynamic capabilities and the emergence of intra-industry differential firm performance: Insights from a simulation study. *Strategic Management Journal,* 24(2), 97-125.