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Rise & Fall of Corporate Entrepreneurship: Exploring Why Companies Close Their CE Units

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Abstract—Corporate Entrepreneurship units (CE units) are instrumental in driving innovation and change within established companies. However, these units are recurrently being subjected to downsizing or closure with minimal understanding of the underlying reasons. This conceptual study addresses this gap by drawing on three theoretical perspectives and three cases of closed German CE units to identify key reasons. These reasons and perspectives are then further integrated into a framework. In addition, overarching categories of reasons are derived using analytical concepts. These findings provide a basis for future research efforts that seek to investigate and explain CE unit closure, as well as novel insights into previously neglected managerial concepts for CE. Practitioners can utilize these findings to identify stumbling blocks that may prevent CE units from being closed.

Keywords—corporate entrepreneurship units, closure, reasons, conceptual study

I. INTRODUCTION

Over the past decade, many established companies have relied on dedicated new organizational units with the purpose to cultivating new innovation and transformation capabilities that cannot be expediently developed within the existing structure of the core business [1–4]. These so-called Corporate Entrepreneurship units (CE units) [1, 3] aim to systematically support entrepreneurial teams inside and outside the organization (e.g., build corporate ventures, collaborate with external startups) [5–7] to create or access new technologies, explore and implement new business models in the market, and drive the transformation towards a more agile and entrepreneurial way of working [2, 5, 8]. While many companies have CE units for years, others are just starting out with more and more research emphasizing their positive effects [3, 8, 9]. Nevertheless, some of these companies are scaling back their CE units or even closing them down completely [10–13]. For example, Henkel ended its startup investments after six years, DHL Group closed its incubation unit after only three years or Intel that spun off its corporate venture unit into a standalone fund.

This phenomenon naturally raises the question: Why do companies reduce or close their CE units? Are CE units in some companies closed simply due to economic downturn and cost-cutting? That would mean that long-term strategic developments with CE would be foregone due to short-term considerations. Or is it because in some companies the goals of the CE units have been obtained? In that case, the closing would reflect the success of CE. This reason seems to be an exception. Cultural change is typically a long-term process; yet, in many cases, CE units are closed after 3–4 years, i.e. early on despite the increasing need for transformation and innovation in companies. Another possible reason for closing CE units is that outcomes seem to fall short of expectations, meaning that initial goals are assumed to be not met. In that case, closure would reflect “perceived” failure of the CE unit.

Some studies look at the CE unit closing in a kind of cycle of recurring buildup and closure [12], or examine reasons for one type of CE unit from one theoretical perspective [11]. However, research into the closing phenomenon and its various reasons in a holistic explanatory way has so far been limited [3, 11]. There is a lack of comprehensive frameworks to analyze the situations that led to closing and (perceived) failure, identify potential reasons for it and understand how they manifest themselves. To extend our knowledge of CE unit closure and the potential reasons, we pursue the following objectives with this conceptual study:

- (1) Explore theory perspectives on reasons for CE unit closure
- (2) Explore in detail a few heterogeneous cases for our theoretically derived reasons in practice and new reasons
- (3) Describe examples for each reason

To achieve over research objectives, we firstly describe three theoretical perspectives that provide approaches for potential reasons for CE closure. Secondly, we outline an initial framework that puts the joint reasons for the CE unit closure into perspective. We will then apply this framework to three exemplary cases of German companies that closed their CE units. This process includes the deductive and inductive analysis of qualitative data. Based on the aggregation of consequential empirical and theoretical results, we propose an exploratory framework for the analysis of CE unit closure reasons. This framework is intended to serve further scientific research as well as the development of strategies for the prevention of closing CE units.

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From a scientific perspective, it is highly relevant to investigate the reasons why companies have decided to close CE units or considerably reduce their CE activities. This issue has limited empirical insights. CE research may benefit from the creation of a theoretically and empirically backed perspective in the form of a framework that enables the analysis of CE units and possible reasons for closure in particular, and the formulation of strategies to deal with these reasons. From a managerial perspective, these reasons provide a realistic perspective on both the potential and the risk involved with starting CE units. These reasons, once disclosed, can also focus managerial attention on possible remedies to prevent or react in the face of failing CE units.

II. THEORETICAL PERSPECTIVE ON CLOSING CE UNITS

To start our thinking about possible reasons of why companies close their CE units, we present three alternative theoretical perspectives on this phenomenon: (1) investment, (2) socio-technical system, (3) management control. Each of these perspectives offers a unique take on CE units, and hence, may complement each other in exploring possible reasons for closed CE units.

A. Investment Perspective

In general, the investment perspective regards organizational changes, such as starting a CE unit, as a form of investment intended to yield a return [14]. This investment signifies the costs associated with starting and operating the CE unit. These expenses are both incurred upfront and during the CE unit. They encompass both financial expenditure and the utilization of other resources like time employees allocate to CE activities. The return comprises both the direct outputs of the CE units (e.g., innovations, startups etc.) as well as their indirect impacts on the companies (e.g., more entrepreneurial company culture) [5]. The performance represents the return on investment (ROI). To assess this ROI, it is necessary to select a specific time frame for calculation. The general aim is to get back the investment as quickly as possible through the value of the outcomes. The payback time is contingent upon the type of investment: corporate management will accept return later with “young” investment, while they expect returns sooner for more “mature” investments [15]. This simple investment illustration offers a potential explanation for the reduced support CE units receive from management. From an investment, three distinct reasons can be identified.

Investment may be higher than expected: The financial expenditure and resources necessary to build up, operate and get outcomes from a successful CE unit exceed initial expectations. The novel nature of the organizational unit complicates the comparison of the costs and resources between a “normal” business unit and a CE unit [16]. Starting up and operating a new organizational unit involves periods of learning, which is initially less efficient [17]. Thus, these activities require greater investment than expected.

Outcomes may be lower than expected: The outcome of CE unit operation may fall short of initial expectations in terms of quality and quantity of outcomes. The outcomes of CE units are characterized by their radical deviation from normal company outputs [5]. This implies that achieving these outputs is more difficult and, in some cases, may even prove unattainable (e.g., new market potential turns out to be lower than predicted). Failure rates for radical innovation are found to be considerably higher than for incremental new innovations [18].

Outcomes may take longer than expected: The timing of the outcomes may be disappointing, i.e., it takes much longer than expected to produce accountable outcomes. It takes much longer to master new activities and create radical innovations in a CE unit than it does to create incremental innovations in core business-related units [19]. Expectations about the time to success in innovation are shaped by the mainstream model of development and diffusion, the innovation-diffusion paradigm [20]. Simply, this paradigm claims that innovations are created in a project that, once well managed, will lead to large-scale diffusion [20]. In practice, the process of innovation is fundamentally different and much more erratic [21, 22]. Radically new innovations are rarely created in a single project. The time between the invention of a radically new principle and its implementation or market introduction is usually much longer than the duration of an innovation project. The innovation diffusion paradigm also claims that the diffusion of successful innovations builds up gradually and smoothly towards large-scale diffusion [20]. In practice, most successful radically new innovations start to diffuse much more erratically. In most cases, different versions of such innovations are introduced in different niche market segments, and several of these efforts may be abandoned until one version of the innovation emerges that begins to diffuse on a large scale [19]. Thus, the development and diffusion of radically new innovations take much longer than generally expected based on the innovation-diffusion paradigm.

B. Socio-Technical System Perspective

In general, the socio-technical system perspective argues that the effective development and diffusion of innovations requires a combination of social and technological actors and factors [19]. Accordingly, to achieve a given innovation goal, a number of different people with specific knowledge and capabilities need to do the right things with the right methods, equipment and infrastructure at the right time, from the early initiation through its entire development to the successful commercialization of an innovation [19]. While this involves a targeted organization of the various elements within the company itself, it also requires specific factors and actors from outside the company (open innovation [23], company as an open system [24]). The socio-technical systems perspective thus points to possible reasons why CE as an overarching system of possibly several subsystems of individual CE units may not work successfully.

Right resources to establish a functioning CE unit cannot be brought together: The setup of (the first) CE units raises several issues. As CE units are not only a novel but different form of organizational structure with a unique approach to developing innovative solutions, there is a lack of knowledge and understanding with the employees and management how to implement the CE unit [25, 26]. They need to develop an approach that is successful for the specific company. This requires sound planning and implementation of appropriate structures and people, procedures, methods and rules, and the objectives and outputs to which they are directed. While carrying out their activities, CE units are also faced with the challenge of providing very specific support to the various venture teams with their very specific innovation ideas [5]. Often, CE units do not have the resources, infrastructure and expertise to provide this kind of support, and are therefore dependent on the support and resources of other parts of the company (e.g. purchasing, controlling, sales) [10]. CE managers therefore need to be able to build fruitful relationships with different people to ensure access to these

critical resources throughout the CE unit's activities [27]. And even if the CE unit does its best and the venture teams are provided with all necessary resources, success of the ideas still depends on many other uncertainties (e.g. the right timing).

Political/personal differences degrade CE units' operating conditions: CE units are highly dependent on the financial and political support of top management [10]. As a result, they can be significantly affected by organizational politics, i.e., power struggles, or personal preferences and differences. Accordingly, while it may be beneficial for CE units if top management wants to promote new innovative initiatives, it may become critical if they change their minds. For example, if CE unit activities are not perceived as successful due to failed projects, they may lose the confidence of their sponsors. Further, if there are personal differences between the CE unit managers and management, the CE units may come into the crosshairs. Similarly, if there is a change in management, the new sponsor may be less supportive of a CE unit (which was a prestige project of its predecessor).

Orchestration & co-specialization of multiple CE units is required but difficult: Established companies tend to pursue more rather than fewer innovation objectives simultaneously [7, 28]. For example, companies pursue both the creation of new businesses (i.e. new products, services, business models) and the strategic renewal of their organization (i.e. new structures, processes, working methods, ways of thinking) [29]. Yet, the creation of any innovation is a process that involves several key activities from idea generation and concept formation to adaptation after the introduction of a first version into practice. This complexity of different innovation goals and related activities can hardly be combined in one CE unit. Hence, companies have developed specialized CE units that foster innovations in terms of different levels of maturity and various goals [5, 7]. To have an end-to-end process that generates different types of innovations, there must be several complementary specialized but aligned CE units that work together in a dynamic and constructive way. This so-called co-specialization and collaboration of CE units requires dynamic and proactive coordination or orchestration between them [30]. Again, this is a highly complex task, which adds another layer of uncertainty to the successful creation of innovation and thus a positive perception of the performance of CE units.

C. Management Control Perspective

In general, the control perspective involves a management process in which goals are set for organizational units for a period of time and resources are allocated to achieve those goals [31]. Over time, the outputs produced, and the resources used are measured and, based on this 'data', a comparison is made with the objectives to assess the achievement of the objectives and hence performance [32]. From this perspective, performance is defined as the extent to which a goal is achieved [31]. If the actual achievement of objectives differs from what was expected, or if the use of resources differs from what was expected, corrective action can be taken. This perspective also indicates that different reasons for closing of CE units can be distinguished. These reasons may relate to goals, expected resources, the measurement and evaluation method, or corrective actions. They form three possible types of reasons for CE unit closing which will be described below.

Goals may be unrealistic: The expectations that managers formulate in terms of goals for CE units depend on the implicit model of innovation and diffusion that these managers have in

mind. The mainstream model is the innovation diffusion paradigm [22]. This paradigm describes innovation as a project in which an idea, e.g. a new technological principle or a new service concept, is developed into an innovation with all the essential elements of a business model [22]. If this project is completed well, the resulting innovation is expected to diffuse steadily on a larger scale after its introduction to the market [22]. Following this well-known paradigm, there are several goals for such a project: completion of the project resulting in a new product with a complete business model, launch of the product, increasing diffusion over time and thus increasing number of sales, turnover and profit over time [22]. These goals are well known and seem to be beyond doubt for the management. However, most of the radically new innovations that eventually proved to be successful were not the outcomes of a single project. The diffusion of such innovations has often been much more erratic than a smooth, gradual, linear diffusion process [22]. Hence, the goal of creating a complete innovation in a single project and then rolling it out is unrealistic. Furthermore, radically new innovations generally do not diffuse smoothly [21], so a diffusion goal combined with sales, turnover and profit targets is highly unrealistic in most cases. Instead, other types of goals may be needed, like increasing the knowledge of technology and exploring the market of such innovations [29]. Such goals refer to learning rather than direct market results and may involve building out the required socio-technical system (CE unit) within and outside the company. Instead of sales, turnover and profit, the goals may refer to pilots and relative progress demonstrating technological and market potential and may involve network formation of actors that need to be aligned to make the radical innovation a market success [33].

Goals are open for different interpretations: Goals are formulated as an expected or desired state in the future [34]. Literature on goals distinguished between very specific or rather unspecific pre-defined desired outcomes [35]. The more precise the pre-definition of the outcomes to be achieved the less room there is for interpretation by stakeholders. For example, setting a target for sales numbers per year. However, researchers describe CE units as sometimes having no, vague or conflicting goals [29, 36]. Additionally, goals for CE units are found to be more formulated as a mission to remain flexible regarding the outcomes that can be achieved in the uncertainty that accompanies with CE [29]. This vagueness entails a risk of different understandings of expectations and therefore of achieving outcomes other than those intended.

Expectations about resources may be unrealistic: If the perception or implicit model of the process of innovation development and diffusion is simplified compared to reality, then estimates of resources required to successfully complete such a process are likely to be wrong. For radical innovations, the process of development and diffusion is much harder to predict than the mainstream innovation diffusion paradigm seems to imply [21]. Therefore, resource requirements based on predictions using this paradigm are likely to be overly optimistic. This in turn may lead to disappointment.

Collaboration of CE units is not (sufficiently) incentivized: Incentives and rewards are control practices that are used to increase the likelihood of goal achievement due to their strong influence on the behaviour of involved actors [37]. In most cases, the collaboration between several CE units within one company is not promoted in a targeted way, but relies on the motivation of individual CE unit managers.

Incentives for systematic cooperation between these units (e.g. through common goals for synergies or increased investment in joint activities) seem to be lacking, and each unit tends to pursue its own specific goals. This may reduce the likelihood of achieving outcomes for radically new innovation and transformation at all, or more effectively or efficiently with the necessary functional portfolio of CE units[30].

Metrics are not or vaguely defined or are unable to capture CE units' value: Measurement and evaluation methods help an organization, organizational unit or project to achieve its goals by assessing the goal achievement progress and taking the right future directions [38]. In business management, we know different types of metrics, key indicators and processes to track how effectively or efficiently actions and resources are being used to achieve goals. Typical examples are ROI, cash flow, profitability. Useful measurement requires the systematic derivation of metrics from the original purpose of the organizational unit or project and their alignment with the goals and potential outcomes [39, 40]. So, if the goals for the radical innovation unit differ from those of the core business units, it is likely that the familiar financial metrics will not be able to capture the value creation

of the innovation unit and, in the next step, will not be able to be compared with the original goal to assess whether the actual output is meeting, or close to meeting, the goals for innovation [16]. This may lead to a perception of underperformance and inefficiency. In addition, traditional accounting-based metrics tend to be past-oriented and thus provide little insight into the future direction of startup projects that seek to create new markets and technologies [41]. Therefore, it seems reasonable to have an adapted set of metrics (i.e. non-financial, forward-looking) that capture the innovation project's future potential and strategic impact[16].

D. Initial Overview of Reasons

Looking at CE unit closure from three different perspectives resulted in an initial list of possible reasons (see Table 1). Each perspective (investment in column 2, socio-technical system in column 3 and management control in column 4) has its own list of reasons. Although the wording varies across perspectives, some of the reasons are similar and thus can be grouped (see rows). As a first result, the table reveals seven alternative reasons for closure of CE units, derived from different theoretical perspectives (column 1).

Table 1: Three perspectives and their take on possible reasons for perceived failure of CE units

#	Reasons by comparing perspectives	Investment	Socio-technical system	Management control
1	Investments and resources are underestimated	Investment (or costs & amount of resources) may be higher than expected		Expectations regarding resources may be unrealistic
2	Outcomes and goals are not achieved as expected	Outcome (quality or quantity of CE outputs) may be lower than expected		Goals may be unrealistic or open for different interpretations
3	Time to obtain outcomes and goals is underestimated	Outcomes may take longer than expected		
4	Lack of (access to) adequate resources		Right resources (from within & outside the company) to operate a functioning CE unit cannot be brought together	
5	Negative internal dynamics		Political/personal differences degrade CE units' operating conditions	
6	Orchestration and collaboration of (co-specialized) CE units is not achieved		Orchestration & co-specialization of multiple CE units may be required but difficult	Collaboration of CE units is not (sufficiently) incentivized
7	Measurement does not reflect the progress and value of CE units			Metrics are not or vaguely defined or are unable to capture CE units' value

III. EMPIRICAL PERSPECTIVE ON CLOSING REASONS

To continue our thinking about possible reasons why companies close their CE units, we present empirical insights from exemplary cases on this phenomenon. To this end, we combine the findings of an explorative-inductive case analysis with our initial list of theoretically derived reasons.

A. Methodology

Three exemplary cases of CE unit closures were selected where we expected to find both the proposed and novel reasons (Table 2).

Table 2: Overview data sample cases

#	Company Type	Industry	Size employees	Start CE	End CE
1	Family-owned	Adhesive material	~ 1000	2017	2019
2	Public-owned	Automotive	~ 100.000	2016	2020
3	Public-owned	Automotive	~ 150.000	2022	2024

The selection of our cases was guided by our research aims: (1) Explore in theory possible reasons for CE unit closure; (2) Explore in cases our theoretically derived reasons emerge in practice and new ones; (3) Describe examples for each reason. We were thus searching for cases of recently closed CE units and companies with different sizes (in terms of number of employees) that operated outside the digital industry (so they would be transformed by digital transformation, rather than cause the transformation). These criteria, and pragmatically, our ability to get access, shaped the ultimate selection of cases.

The data collection aimed to gain first-hand insights into the units' history and situations that led to the CE unit closures. These insights were gathered through five semi-structured interviews with CE unit leaders and staff (Table 3). The interviews were conducted at a time when the units had closed, were in the process of closing or had been paused. The interview covered questions on how and why the unit was set up, what objectives and activities were pursued, what results were achieved, how it was linked to the core organization and interacted with corporate leadership, and how it was closed.

Regarding the closure, the interviewees were not asked for specific reasons which prevents narrow testing of assumptions and biases; rather, they were asked open questions about why the unit did not continue and what would have helped retrospectively to prevent the closure. The information was complemented with publicly available data such as company websites and press articles. This allowed us to create a concise overview of the case companies background, the historical context of the CE unit(s) and the closure situation.

Table 3: Overview data collection

#	Data	Interview Length in minutes	Role Respondent
1	Interview, company website	72	Leader CE unit
2	Interviews, press articles	60	Assistant to CE unit leader
		44	Assistant to CE unit leader
		69	Leader CE unit outpost
3	Interviews, press articles	57	Leader CE unit A
		64	Leader CE unit B

The analysis consisted of several steps and followed an exploratory approach. These steps can be divided into three phases: The first phase served to gain a deeper understanding of the situations within each case that led to the closing and identify key reasons for these developments. This analysis included inductive coding of the empirical data [42] to reconstruct key events and changes that appeared meaningful for closing, potential failure and success. The emerging insights were then subject to a deductive analysis [43] in comparison with our proposed list of reasons (section 2). In the second phase, we analyzed the relationships between the reasons to form an integrative framework using a systemic perspective. This in-depth analysis revealed theoretical concepts that could be helpful for further insights. Thus, in the third phase, we investigated the reasons and closing-relevant events of the cases with the identified concepts to identify common and differentiating characteristics and to specify potential overarching types of reasons.

In the following, we briefly present the CE unit's background and closing situation. Then the reasons are outlined using quotes from empirical material.

B. Case 1: Different Interpretations of the CE Unit's Job

Background CE Unit

Responding to an advisory board request for a future vision, the company's top management started the CE unit as a "pilot project" to explore potential new technologies for future business. To this end, the CE unit was given the goal to "address new digital business models [...] along the core business [...] with an agile approach". The unit was set up as a five-member sub-unit of the top management with lots of autonomy "you get a credit card, you have a project budget and you organize yourselves". The unit used an agile and more opportunistic approach ("In the beginning we didn't have these defined stages where we looked at an issue for six months and then decide if we fully invest in it") to generate ideas and develop pilots. Over two years, several scaling prototypes were developed for one idea. Meanwhile, the CE unit sought to grow by "preparing the next team for a new idea [...] spread the risk [...] take a little money and bet on ten horses at the same time, one of them will win". However, this vision was not supported by top management.

Reasons for Closing

Three reasons from our initial list could be identified for this CE unit closure: (i) Outcomes are not achieved as expected, (ii) time to obtain outcomes is underestimated, and (iii) lack of (access to) adequate resources. The following is a brief description of the manifestation of these reasons.

Outcomes are not achieved as expected: In this case the intention for the CE unit was open for different interpretations. The CE unit was tasked with exploring new digital business models but they "didn't actually have any goals to be met at all". The CE unit "set (their) own goals, those goals weren't OKRs that (they) could measure ... and deliberately kept (their) goals under the radar so that (they) could work more freely". Thus, there were no explicit jointly agreed specifications for desired outcomes between the unit and management. This lack of explicit definition seems to have led to different expectations for the CE unit among various stakeholders, including the CE unit team, core business colleagues, and management, and to a discrepancy between self-perception and external perception of the unit's role, process and success. The CE unit saw its role as "long-term end-to-end responsibility for a few promising ideas because that's how a start-up would do it" and assumed a long-term management commitment to overall organizational change, while management viewed it solely for idea generation ("«Yes, you're just a think tank» and expected prototypes every two weeks"). In the absence of goals, metrics and expectation alignment, and thus wide scope of interpretation of the intention, each party likely used its own (subjective) evaluation criteria and, in the case of management, perceived the CE units as not delivering outcomes as expected.

Time to obtain outcomes is underestimated: With the intention to explore a new (digital) business model, the management inherently made the decision for a project that will generate long-term outcomes. The CE leader highlighted this as a key issue because they would have needed to select a "flagship project that could have implemented outputs quickly to quickly win over more supporters", instead of relying on one "big" new idea with substantial long-term outcome potential. This approach could have facilitated the creation of credibility for the efficacy of the investment, potentially important for a small, less financially backed company. Thus, the CE unit seems to have underestimated the time needed to deliver actionable outcomes in such projects.

Lack of adequate resources: One challenge was to establish the appropriate structure and activities that the company needed to establish CE. In the case of innovation projects with ambiguous long-term outcomes, "not having a defined process and methods led to problems as management found it very difficult to invest in something so uncertain". The case company is a small organization, typically not as well-resourced as large ones, and hence has limited capacity to experiment with projects. Also, management was familiar implementing projects sequentially, guided by "ROI in two and a half years". In the absence of specific decision-making logics and criteria for these high-risk projects, management seemed to have had bad feelings about following the CE unit leader's proposal to build a whole portfolio of them.

The lack of key resources is manifested also in the absence of support activities and roles. The CE unit leader noted that the CE unit was initially regarded as a startup-like development department, rather than as a unit for driving change within the company. Thus the "required

communication and [...] a resource concerned with change topics and activities should have been taken into account earlier" to explain the relevance of such a unit, win supporters and initiate change-supporting activities. This seemed particularly problematic given the nature of the innovation development, which was new for the case company.

C. Case 2: Try to hit a moving target

Background CE Unit

Overall, the CE unit's core tasks were to develop innovative digital business models and leverage the new opportunities of digitalization for the core business. The unit originated from the strategy of the former management board, which emphasized "opening up to new business models". To implement this strategy, the first step was a dedicated unit for business innovation that had significant resources and worked "mainly on digitalization projects [...] in an opportunistic and unstructured [...] but quite successful way". Simultaneously, a cultural change program specified the setup of an incubator to foster more "innovative, faster, and startup-like culture". This led to the "redesign" of the business innovation unit into one centralized CE unit consolidating new types of innovation efforts with a systematic process. Meanwhile, different business departments created their own CE units for new business models and startup partnerships. The duplication raised concerns about the central CE unit's unique value as "they (business departments) are doing something very similar to what we are doing". To justify its *raison d'être*, the central CE unit shifted to overarching strategic, long-term and completely new topics, while decentralized CE units focus on product- or production-related innovations.

A new top management team with a change of strategy towards optimizing core business operations, budget cuts, and achieving short-term financial outcomes with innovative activities. The CE unit refocused again, now on topics with closer core business relation but faced challenges in additional redesigning, resources and competency allocation. Ultimately, the CE unit was sold to secure a return on CE investment.

Reasons for Closing

This case is a perfect example of closure stemming from an internal shock and the adding up of various related reasons.

Orchestration and collaboration of CE units is not achieved: As a top-down initiative, the CE unit was tasked to establish a central approach to new business models in line with the new leadership strategy. However, several decentral innovation units already existed in different departments. These overlapping CE structure raised questions about the CE unit's *raison d'être* and sparked political discussions about duplication. However, there was "not objective evaluation of the individual units to coordinate them for collaboration or merge them", so they continued to operate separately. The central CE unit should dedicate itself to the new task of "focusing solely on long-term strategic projects". In this respect, defining a clear value proposition for the central CE unit and aligning it with its existing processes took considerable time. This organizational redesign may have hindered greater realization of outcomes for a period of time.

Measurement does not reflect the progress and value of the CE unit: As one executive noted, the unit "did not have strong, clear goals and KPIs from the beginning", which seemed to have created ambiguity in expectations and performance among stakeholders. Instead of a structured

approach based on explicitly discussed outcomes to be achieved, goals and metrics, decision-making appeared to be based on political pressures, subjective assessment and the personal investment of CE unit executives in their projects ("own babies"). On reflection, one team member stated that "better or more tangible KPIs should have been defined from the outset. Then we should have been focusing on achieving them". This approach would have facilitated "presenting the whole thing better to perhaps have more justification for it".

Negative internal dynamics: Case 2 shows, for example, that when staffing the CE unit, it was "politically wise to have C-Level in there to have standing and access to budget". However, this arrangement also led to a reluctance to terminate underperforming projects as "if their project wasn't going well, we should have ended it, but nobody would have wanted to give it up". In other situations, unpromising projects were continued only because they had been proposed by top management and "nobody wanted to cut it off because it came from person XY and we were told to have a look at it and ideally something successful should come out of it". These internal dynamics show that assessment of projects based on subjective criteria (e.g., staying on projects in the hope of desired outcomes or because early termination of an unpromising project is not considered seen as a positive outcome) rather than pre-defined, "objective" ones can drive the perception that actual outcomes may not meet those some stakeholders have expected.

Significant change in strategy wipes out strategic fit: A new CEO marked a shift in the corporate strategy, from developing new business models to strengthening the core business and reducing costs. This change came along with new corporate intentions ("Where are we cutting back now? What brings us the most outputs? ") and probably also with different ones for the CE unit like new solutions for the core business areas, which is contrary to the previous intent for the CE unit (exploring entirely new business areas). For the "mid-term review" to evaluate the potential of the CE unit with the new CEO evaluation methodologies were applied that fit the new strategy, such as financial return, profitability or cost savings ("It's all KPI-driven and it's really about every FTE [...] hard management, according to the motto okay, what brings me the best cash flow now?"). Those metrics and criteria were not able to reflect the long-term pursued value creation of the CE unit ("difficult with many projects to really put a financial figure on it [...] You can't say after three years that we have now sold so and so much on the market"). Thus, the assessment yielded a negative rating of the CE unit in the eyes of the management ("the unit is relatively big. And that costs a lot of money. Somehow nothing comes out of it") and withdraw the commitment to "put resources into it if it no longer fits in the strategy" and make an "easy to say" decision to end the unit for the company.

The internal shock raises the question of why the CE unit did not "just" adapt to the new strategy. Shifting to a core business focus would have required a complete redesign (the third major redesign). It would also have required "different people, less deep technology experts and more implementation skills". And a different mindset, away from "you have all the freedom, you can do anything, to not now", which led to lack of motivation, frustration, and exit of CE unit staff. Thus, the case shows that implementing corrective actions quickly is difficult, especially when the cumulative effect of the reasons leads to an inability to change.

D. Case 3: Economic Pressure Takes Its Toll

Background CE unit

The CE unit, a corporate venture capital unit, was founded with the goal of creating and facilitating the company's access to and engagement with the startup and venture capital ecosystem to create "new channels for innovation and revenue that were yet not available to us at the time". Its core activities focused on building a network of promising startups, engaging in projects with startups and investing in these startups. The CE unit was setup as an own legal entity with "direct assignment from our CEO and CFO [...] to be a strategic project". It was set up in 2020, due to the corona crisis, it operationally started in 2022 and was stopped in 2024. Over this two-year period, there were investments in two startups and in three venture capital funds.

Reasons for Closing

Economic pressure leads to investment shifts: In response to the economic pressures and weakening economic outlook in the company's core industry, the top management has taken the decision to cut costs in areas that do not have a direct (positive) business impact, and thus also to change the intention for innovation activities towards the "focus on technologies that generate income within a reasonable time frame" [44]. Initiatives involving startup investment activities, with their typically long-term return prospects exceeding a five-year period, fall under the purview of this externally driven austerity program. This is the case even though the CE unit has actually achieved expected targets. In addition, the CE unit has not only directed startup investments but also investments in venture capital funds. As a public article point out, the company only get a return as soon as the invested portfolio startup has been sold at a profit, which does not seem promising in view of the current low number of exits [44].

IV. DISCUSSION

The analysis of literature and empirical material for the question of why companies close their CE units yielded several findings: different reasons and their manifestations, different perspectives and several additional concepts that seem to be relevant to the investigation of the closure and survival of CE units. To move towards a possible explanatory argumentation for the closure of CE units, the purpose of the next step is to theoretically evaluate the pragmatic insights for further analytical abstraction. For this, we analyzed the reasons in isolation and relation to each other based on the perspectives and concepts identified.

A. Reasons for CE Unit Closure

Our analysis revealed nine different types of reasons for downsizing or closing CE units. Seven of those reasons were identified by examining three theoretical perspectives, while two more were found with the case analysis. For each reason representative examples of how these reasons can be observed for CE units could be identified (Table 4):

Regarding the first reason, the case analysis showed that CE unit goals could range from explicit to very vaguely defined. In cases where the goals remained vague, there was evidence of subjectivity in management's assessment of the CE unit's outcomes and values. Notably, this subjective assessment was always to the disadvantage of the CE unit.

While we found most of the initial reasons for the closure of CE units confirmed by our case companies, two additional reasons emerged during the analysis. First, CE units may fall

victim to economic pressure. In times of economic crisis, CE units experience managerial pressure, due to their capital-intensive activities that involve high uncertainty and long-term focus on (economic) success. However, CE units can hardly influence the economy, but they are usually confronted with harsh consequences immediately. This is why we refer to them as external shocks, which opens up a new perspective. Second, taking a more internal perspective, we identified that a significant change in corporate strategy may result in CE units' loss of strategic fit. Accordingly, if top management, for example, decides to change direction with certain business areas, this can call into question the *raison d'être* of certain CE units. If they cannot respond immediately (to this external shock) by demonstrating how they can continue to support strategically relevant projects, for example by making certain adjustments, this may lead to their closure.

Table 4: Final List of Reasons and Examples

#	Reasons	Examples
1	Outcomes & goals are not achieved as expected	Different interpretation by CE unit and top management about desired outcome due to vague goals
2	Investments & resources are underestimated	Need for additional support activities and roles (e.g. change manager, communication) to make outcomes effective
3	Time to obtain outcomes & goals is underestimated	Effectiveness of the investment is determined by short-term (2 years) ROI while the CE outcomes do take more time.
4	Lack of (access to) adequate resources	Lack of supporting activities and roles to explain relevance of unit and facilitate change
5	Negative internal dynamics	Personal beliefs and aversion to stop projects lead to projects being pursued without objectively verifiable potential
6	Orchestration & collaboration of (co-specialized) CE units is not achieved	Several similar but separately initiated CE units (e.g. centralized and decentralized in departments) operating in an uncoordinated manner imply redundancies
7	Measurement does not reflect progress & value of CE units	Lack of new (agreed) metrics for new outcomes (e.g., learnings, potentials, transformation)
8	New corporate strategy wipes out strategic fit	CE unit is incapable to align its processes and skills quickly enough with new strategy goals
9	Economic pressure leads to investment shifts	Economic downturn in core markets drives resource reallocation from long-term return-generating activities; innovation activities with short-term returns become primary focus

Our cases indicate that the decision to close CE units is often based on a combination and at times even an interrelation of multiple reasons. In this context, there appear to be cases where the sum of quite independent reasons (e.g., reasons 2 & 4) led to the closure of the CE unit(s). However, some reasons can also be interrelated (e.g., reasons 1 & 4), making an issue appear even more critical for the CE unit(s).

Considering the overarching perspectives, we could further derive a logic in terms of a sequential and time-based order between them (Figure 1). As such, CE units would not exist without an initial investment. The established CE units thereby form a system, each for itself as well as all CE units comprehensively. Once (the system of) CE units carry out their CE activities (process) the question of outcomes as well as their control (in relation to the invested input) arises

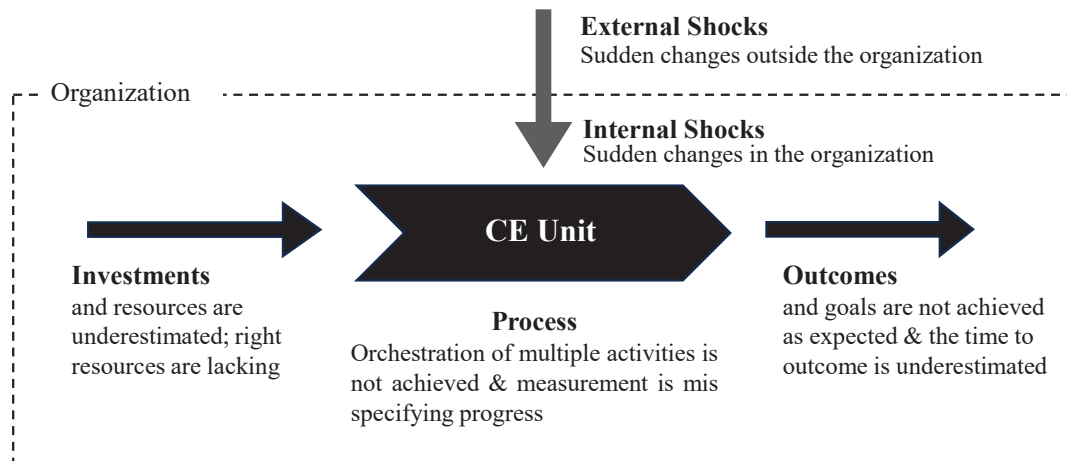


Figure 1: Framework of CE unit closure

B. Involved Concepts & Types of Closure Reasons

Interestingly, a few concepts emerged from our analysis that appear to be central to the decision-making process for CE unit closure: intention and expectation, perceived value and dis-/satisfaction. These concepts will be outlined below.

The setup of CE units is driven by deliberate intentions of management. This motivation is typically tied to management expectations regarding the outcomes. The intention and expectation serve as reference points for later evaluation. The outcomes yielded by a CE unit are subject to the perceptions of its stakeholders. Consequently, the perceived value of the CE unit is subsequently another component of the CE unit evaluation. In the event of a discrepancy between the anticipated and perceived outcomes, the stakeholders are either dissatisfied or (overly) satisfied [45], resulting in the declaration of a CE unit as unsuccessful/failing or successful.

A subsequent analysis of our reasons and cases with these concepts revealed two categories of closure reasons: Reasons that are (i) exogenous or (ii) endogenous to the CE unit.

Exogenous reasons are rooted in sudden and fundamental changes in the broader corporate context. The effects of these changes are beyond the sphere of influence of the CE unit, yet they directly determine its fate. These changes can come from within the company, e.g., a significant shift in corporate strategy following a CEO change (reason 8), or from outside the company, e.g., economic pressure that forces cost-cutting actions (reason 9). In such cases, the closure decision can be completely independent of the outcomes of and satisfaction with a CE unit. In one of the cases examined, the CE unit even exceeded its outcome expectations, but the overarching changes seemed to leave no viable alternative but to close it, highlighting the exogenous nature of such a closure.

Endogenous reasons may be due to circumstances that arose within the CE unit's sphere of influence. Yet, the endogenous category turned out to be more complex, with two subcategories, based on whether or not the unit's expectations were translated into concrete goals and metrics in advance. One subcategory reflects management's apparent dissatisfaction, although there is no explicit goal system for the CE unit, which we therefore call closure due to *perceived failure*. The other subcategory reflects management's apparent dissatisfaction because there is a goal system in place and the pre-defined goals are not being met as expected which we therefore call closure due to *factual failure*.

C. Scientific Contribution

A scientific contribution of our work is a theoretically and empirically grounded list of reasons why companies have decided to downsize or close their CE units in a framework to research on the subject. Our approach of combining multiple theoretical perspectives and exemplary case studies has provided an initial framework for analyzing and explaining the phenomenon of CE unit closures. Each had its own take on the phenomenon and hence contributed by suggesting additional reasons, types of reasons and analytical concepts. The findings show that the theoretically derived reasons are supported by empirical results. Consequently, a conceptual framework is proposed that is deemed to be effective.

A further contribution of this study is the identification of examples for individual reasons. This preliminary operationalization can serve as a starting point for further qualitative and quantitative research on the closure of CE units or other units with high uncertainty in companies.

Furthermore, the analysis of exemplary cases facilitated the unravelling of the interrelations between reasons and the manifestation of shock types of reasons. It can be concluded that case analysis is important for understanding the dynamics of reasons and closure situations. One dynamic that emerges from the findings is that in some cases closure is not due to a single reason; rather, it is the result of a combination of reasons, shocks or uncertainty. It is scientifically interesting to see that the exogenous shocks do align with observations by Van de Ven [46, 47] that the actual innovation process is far more erratic and uncertain than the stylized archetypal innovation project approach implies.

Our findings also help to formulate strategies for dealing with these closure situations and their reasons. A first strategy would be to track developments as identified in our framework, which help to react fast in the face of upcoming shocks or changes that may ultimately lead to closure if left unattended. A second strategy, after identifying an upcoming reason for later closure, is to deal with that reason specifically. The formulation of hypotheses about possible interrelationships can be incorporated in strategic planning, with subsequent testing of these hypotheses by the collection of data in short cycles. This approach facilitates cause-effect knowledge. Further, corporate and CE unit management may together anticipate potential internal or external shocks.

D. Managerial Contribution

Our findings are relevant to senior management and CE unit leaders. The successful use of CE is a challenge. It is therefore helpful to know the situations that can lead to closures and the reasons behind them. They serve as a starting point for deriving solutions or taking preventive action. Setting up and running CE units is a long-term and resource-intensive endeavor. Our work therefore helps them to consider important aspects at an early stage in the design of a CE unit, either at the start or during operation, to avoid mistakes that could ultimately lead to closure.

Our work is also relevant for managing expectations regarding CE units. Managing those units differs from that of standard business units. The CE units shall do things that the standard units are unable to do, and thus the way they are organized and controlled is different. The goals and outcomes of CE units are different and so are the metrics and process to assess their performance. Starting CE units is not just another business but rather an investment in the future and learning journey. In such a case, evolution of goals and expectations may be reasonable and require greater alignment of expectations to anticipate change. Hence, we advise starting small, consider learning and knowledge with CE units as an important separate goal and aligning expectations.

V. CONCLUSION

This article focused on closure or downsizing of CE units. Our goal was to explore possible reasons for this. In the first step, we described three theoretical perspectives and the reasons they can provide for the downsizing or closure of CE-units. The three perspectives are: investment, socio-technical system and management control. Each of these perspectives provided multiple possible reasons (see Table 1). Interestingly, these reasons only partly overlap. In total, we found seven reasons (see the first seven reasons in the list). In the second step, we studied three cases of companies that had closed a CE unit to see whether these reasons, derived from theory, appeared in practice. Some of these reasons reappeared in practice. For example, in line with reason seven for closing CE units (e.g., “Measurement does not reflect the progress and value of CE units”), we found that corporations had no explicit or no adapted control system to steer their CE units. In one case there was no explicit control system at all, specifying goals, metrics and a process to track goal achievement over time. In this case, management expectations were present but not explicit and hence open to different interpretations. Thus, the design of the CE unit design could not be proactively adjusted to create the expected outcomes.

We also found two reasons adding to the list of seven reasons for closing CE units. One reason can be summarized as ‘company-internal shock’. Internal shocks refer to sudden changes within the organization that impact the CE unit fundamentally. In one case a new CEO adopted a strategy in which the CE unit no longer fitted in. A second new reason can be summarized as ‘company-external shock’. External shocks refer to sudden changes in the environment of a company with a profound impact on the CE unit. In one case the economic downturn and its effect on the company forced top management to close one of their CE units. These extra reasons highlight high levels of uncertainty, both internally and externally, involved with a CE unit.

Finally, our theoretical and empirical findings highlight that closures can be driven by exogenous shocks, perceived

failure, or factual failure findings, suggesting a more nuanced view on the closure of CE units.

A. Limitations

Our work also reveals several limitations. We have adopted three specific theoretical perspectives and three empirical cases to find reasons for closing CE units. In total, we found nine types of closure reasons. By adopting other or more perspectives and by studying more cases, we most likely would have found additional reasons. We conducted a conceptual study to pioneer-like come up with a holistic explanation of relevant concepts and types of reasons for CE closure and to provide an initial framework for future research. The empirical cases were therefore not analyzed to the extent of a full case study, but as examples. With more data from different respondents a completer and more accurate picture of the reasons and their interaction can be obtained.

B. Future Research

All these considerations are a starting point for a holistic research stream on closure and survival of new organizational units, such as CE units. Thus, further research is needed to deepen the understanding of the closure reasons and related constructs and to enhance theory on CE unit survival.

First, future research should apply our framework in broader empirical studies to verify, extend and generalize the proposed findings and explanations. Discussing our findings with further extant work on the CE unit closure may provide additional explanations as well as further research gaps. In addition, future research could enhance the understanding of the identified relationships of reasons with qualitative studies. Longitudinal approaches could reveal the specific driving reasons and the effects of these interrelationships.

Second, the management control perspective needs further investigation with more empirical research. Management control steers expectations, defines goals, and helps to monitor CE performance, which is a prerequisite for deciding and correcting on CE. Given the involved high level of uncertainty, specific control practices for CE units will be needed most likely. The question about how established companies control their CE units is yet to be answered. With future research we think it is important to come up with control practices that define, for example, goals that can realistically be set and decisions made on “objective” evidence rather than subjective assessment for high-risk CE projects. This may require the development of new dimensions and parameters to measure and assess these CE activities over time.

Third, expectation (management) seems to be critical for CE unit survival. Further insights into expectations as a success factor or their evolution over time may fill a gap in research on CE management.

VI. MATCH & CONTRIBUTION TO CONFERENCE TOPIC

Digital transformation of industries, for example by AI, demands digital leadership in companies. Digital transformation enables companies to create and deliver radically new products and services with new business models. At the same time, digital transformation can induce a complete restructuring of existing company processes. Simultaneously implementing process, product and business model innovation cannot easily be done as part of the ongoing company activities. This transformation requires different types of leadership because the goals and the processes of the

transformation are not fully known upfront. CE units are one strategy to explore AI-driven and other digitalization strategies. Our article addresses the problems of maintaining such units in an established company by exploring the possible reasons for the recurrent closure of CE units.

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