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Corporate venturing modes and growth of publicly traded companies in Nigeria

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ABSTRACT

Purpose: Globally, corporations employ various modes of venturing to revitalize operations, build new capabilities and achieve competitive advantage over rivals for sustainable growth. Despite this trend, many corporate firms are faced with stiff competitions which have led to many winding up and some running into bankruptcy over time. Thus, this empirical paper investigated the impact of corporate venturing on growth of publicly traded companies in Nigeria.

Design/Methodology/Approach: Corporate venturing was measured via internal corporate venturing, external corporate venturing and cooperative corporate venturing and return on equity as proxy for growth. The study adopted an ex-post facto research design through a ten year (2009-2018) annual report and accounts of the fifteen (15) studied companies based on the availability of their financial statements for the periods under review. Autoregressive Distributed Lag System modeling technique was used as analytical technique.

Findings: The result of the findings revealed that internal corporate venturing and external corporate venturing have significant negative and positive impact respectively on the growth of the studied companies while cooperative corporate venturing revealed an insignificant impact on growth.

Implications/Originality/Value: The contribution of manufacturing sector to the Nigerian economy cannot be underscored and as such, the study recommends that the top management level of corporate firms should leverage their assets and capabilities in creating, adding and investing in new business operations in order to maximise shareholders' rate of return on their investment for sustainable growth.

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1. Introduction

In recent times, there has been a shift from large corporations to small businesses in Nigeria. Most corporate organisations, especially manufacturing firms are winding up due to strong and significant influence of innovativeness on venturing activities among small businesses in the rapidly changing environment (Akinwale et al., 2017). However, for some, in their effort to remain, embarked on various modes of corporate venturing (Gutmann, 2019) to revitalize operations, build new capabilities (Garrett & Neubaum, 2013) and achieve competitive advantage over rivals for sustainable corporate growth (Adeyeye, 2016; Dushnitsky & Birkinshaw, 2016) especially with the dwindling economy and insecurity of lives and properties. CV as a component of corporate entrepreneurship (Covin & Kuratko, 2015; Guerrero, et al., 2019) emphasises the creation of new business within or outside established corporate organisations (Reimsbach & Hauschild, 2012). As a result, established firms that sought to renew their product offerings, by launching new products often adopt the mechanism of CV. The reasons are because of its transformational capability of the Research and Development (R&D) section into new businesses, investments in start-ups and creation of semi- autonomous business units that can be incorporated into their business operations (Battistini, et al., 2013).

Corporate organizations are publicly traded companies registered by Corporate Affairs Commission (CAC) in Nigeria as a business entity separate from the owners but sell shares to the public. Quite a number of them often adopt innovative methods that would enhance their existence and adaptation to the dynamics of the marketplace. They undertook the models of corporate venturing that is not only cutting-edge but revolutionary in the context of firm's survival. To maintain a viable growth, they need different control mechanisms such as autonomy and incentive schemes which are designed to influence the flow of knowledge between the parents and the new ventures (Yang et al., 2013).

In the last four decades, CV has been used as a method to expedite firms' efforts to generate innovation and manage effectively in the dynamic business environment (Kuratko et al., 2015). In a broader term, CV is about corporate entrepreneurial efforts whereby established firms develop and widen their business horizon, consequently leading to identification of opportunities and creation of new combinations of resources to seize the opportunities (Chiu et al., 2012) or creation of new business entities (Roundy et al, 2018) and gain greater value and eventually achieve firm growth (Van Der Steen et al., 2013). Hence, the internal, external and cooperative corporate ventures could be seen as viable methods of fostering growth in large corporations, particularly in a rapidly changing environment like Nigeria in spite of the national challenges. Therefore, the choice of publicly traded firms in Nigeria became necessary as they are characterised by rapid and dramatic change in their business operations.

Studies from developed economies such as Yang et al. (2013), investigated how control mechanisms (autonomy, incentive schemes and corporate venturing objectives) impact knowledge transfer between a parent company and its new venture in corporate venturing in Japan and United States; Van Der Steen et al. (2013), examined the impact of knowledge capabilities across the start-ups and growth phases of corporate ventures in Philips Electronics Netherlands; Del Giudice and Della Peruta (2016), surveyed 187 companies to investigate the impact of information technology (IT) based knowledge management systems on internal venturing and innovation in Italy as well as Basu et al. (2016) investigated how external corporate venturing units can effectively achieve external knowledge search and integration of

their initiatives with mainstream organisational units in the United States. There seems to be a dearth of literature in Nigeria on corporate venturing. Hence, the overarching aim of this study is to address the aforementioned gap by investigating the impact of CV on the growth of publicly traded companies in Nigeria. This study will add to the body of knowledge in corporate entrepreneurship in developing economies by showing empirical evidences of the CV modes that can assist corporate firms' growth.

The remaining sections of the paper are arranged as follow: Literature review is the next section followed by methodology. The subsequent section is the results and discussion and lastly, the conclusion and recommendation section.

2. Literature Review

Corporate venturing (CV) is the set of entrepreneurial phenomena through which an existing corporate organisation diversifies by creating another new business, adding to the one in existence, or investing in another existing organisation (Covin & Kuratko, 2015; Baaken et al., 2019). Relatedly, Narayan et al., (2009) described CV as a set of organisational systems, processes and practices that focuses on creating businesses in existing or new fields, markets or industries using internal and external means. Its innovative activities can be classified into three modes; within the firm (internal corporate venturing), outside the firm (external corporate venturing) and the cooperative corporate venturing which is also referred to as joint/collaborative corporate venturing (Morris et al., 2011).

Internal corporate ventures (ICVs) are entrepreneurial initiatives originating from within the business structure (Brumana et al., 2017) but treated as new business and sponsored by higher management levels (Mahdjour & Fischer, 2015). ICV has been recognised by academic scholars (Abrell & Karjalainen, 2017; Burgelman & Valikangas, 2005) as well as management practitioners (Abrell & Durstewitz, 2016; Garret Jr & Neubaum, 2013) as an important avenue for creating innovation (Mazzarol & Rebound, 2020) in established firms and frequently used by manufacturing companies desiring to innovate and grow (Garett & Neubaum, 2013; Morris et al., 2011). In addition, they are vehicles for firm diversification that result from a deliberate effort on the part of the firm to create new businesses internally as they can receive their funds directly from the operative or strategic budget of the parent firm (Reimsbach & Hauschild, 2012).

The ICVs are usually within the corporate structure but, sometimes, may be established outside the firm and operate as semi-autonomous entities. Among internal corporate ventures that reside within the firm's organizational boundaries, some may be formed and exist as part of a pre-existing internal organization structure and others may be housed in newly-formed organizational entities within the corporate structure (Kuratko & Audrestch, 2013). To achieve this critical factor, the parent firm needs to collaborate with customer and users as well as utilising their knowledge in meeting the challenge of continuous innovation which is commonly supported by pursuing entrepreneurial innovation in early internal corporate venture projects (Abrell & Durstewitz, 2016; Selig et al., 2019) for sustainable growth. When this is done, the products are found relevant and patronised in the market thereby increasing their revenue base, market share and profitability thus investing in the total assets which is tantamount to firm growth. However, internal corporate venturing is challenging as it deals with risks, ambiguities, and uncertainties that describe the process of creating innovation. Juxtaposing to independent ventures, internal corporate ventures benefit from parent firm's resources such as: knowledge and expertise, funding, personnel, supply chain, materials and facilities (Covin et al., 2015) when compared to the external corporate venturing. It could be used in building new organisational

units which may run concurrently with existing organisational structure to speed up growth and learning capacity of the parent firm (Mahdjour & Fischer, 2015). Thus, the more a large organisation invests on ICV, the more they are likely to grow. Therefore, based on this discussion, the study predicts that:

Ho₁: Internal corporate venturing has no significant impact on growth of publicly traded companies in Nigeria.

External corporate venturing (ECV) comprises of entities that reside outside the existing organisational domain and its activities include: corporate venture capital investment and acquisition of entrepreneurial ventures (Titus Jr. et al., 2014). In an effort to secure a remarkable growth, Dushnitsky (2012) contended that established publicly owned firms regularly pursue external venturing activities through assigned units that are different from the normal organisational activities. Corporate venture unit managers served as entrepreneurial agents in quest of effective exploration and integration of external venturing (Basu et al., 2016). For instance, consumer goods manufacturing companies like Nestle Nigeria PLC and Unilever Nigeria PLC employed external corporate venturing to obtain new resources owned by other collaborative partners that are crucial to building new technological capabilities in order to gain competitive edge. Consequently, established firms are increasingly relying on external corporate venturing efforts with the main goal of pursuing strategic objectives by investing in young, innovative start-ups businesses (Reimsbach & Hauschild, 2012).

External businesses are typically very young ventures or early growth stage firms (Kuratko et al., 2015). Several studies such as Lai et al.(2010); Titus Jr et al. (2015); Wadhwa et al. (2016) provided descriptive evidences that the most important objective of external corporate venturing is the “window on technology” that is, access to radically new technologies which broadens a firm’s portfolio of technological competencies. This can be realised when corporations are willing to earmark significant resources in training and development of the employees in order to bring new technologies and working closely with their portfolio companies (Yang et al., 2013). For this reason, external investing requires well trained knowledge-based personnel to manage the investment as different skills are needed, therefore, it is assumed that professional and technical expertise of the company’s employees constitutes a major asset and investment needed in managing external ventures. However, most developing countries like Nigeria are often involved in other forms of incremental innovations rather than the radical technological innovation (Akinwale et al., 2017). Moreover, the infrastructural challenge, poor incentives for R&D, corruption and insecurity of lives and property as it affects success stories may impede ECV to a large extent in Nigeria (Peter & Akinyede, 2017). When ECV is done radically, the firm provides a solution to the problem/challenge beyond consumer’s imagination. Thus, firms that invest on external corporate venture tend to grow more in this era of technology. Therefore, based on this argument, the study predicts that:

Ho₂: External corporate venturing has no significant impact on growth of publicly traded companies in Nigeria.

Cooperative corporate venture (CCV) is the entrepreneurial activity in which new businesses are created and owned by the corporation together with one or more external development partners.

Cooperative ventures typically exist as external entities that operate beyond the organizational boundaries of the founding partners (Kuratko & Audrestch, 2013). It occurs when two or more parent organizations create a new business through their combined resource investments and manifested as joint ventures and strategic alliances (Kuratko et al., 2015) as commonly done in Nigeria due to various government policies to stabilize the economy but they have negative effect on firms' growth. Direct investment of capital by the parent companies in the subsidiary firm typically synergised with management assistance and technology manifest as joint venture and strategic alliance. Therefore, investment in subsidiaries add value to the venturing activity of the parent firm as it pools fund from various sources which resulted in diversification and reduction in risks faced by corporate investors. As such, large firms leverage on their strength and weaknesses, taking advantage of joint venturing options to spread business risks among themselves and exploit the opportunities in the business environment as practised experience in Nigeria some decades ago. It may be a permanent arrangement or ad hoc but would yield a high returns on equity. Thus, the more firms collaborate for a joint venture, the more likely the firms are able to grow and not decline. Therefore, based on this discussion, the study predicts that:

Ho₃: Cooperative corporate venturing has no significant impact on growth of publicly traded companies in Nigeria.

The study is premised on the fact that organizational efforts towards corporate venturing could translate to firm growth.

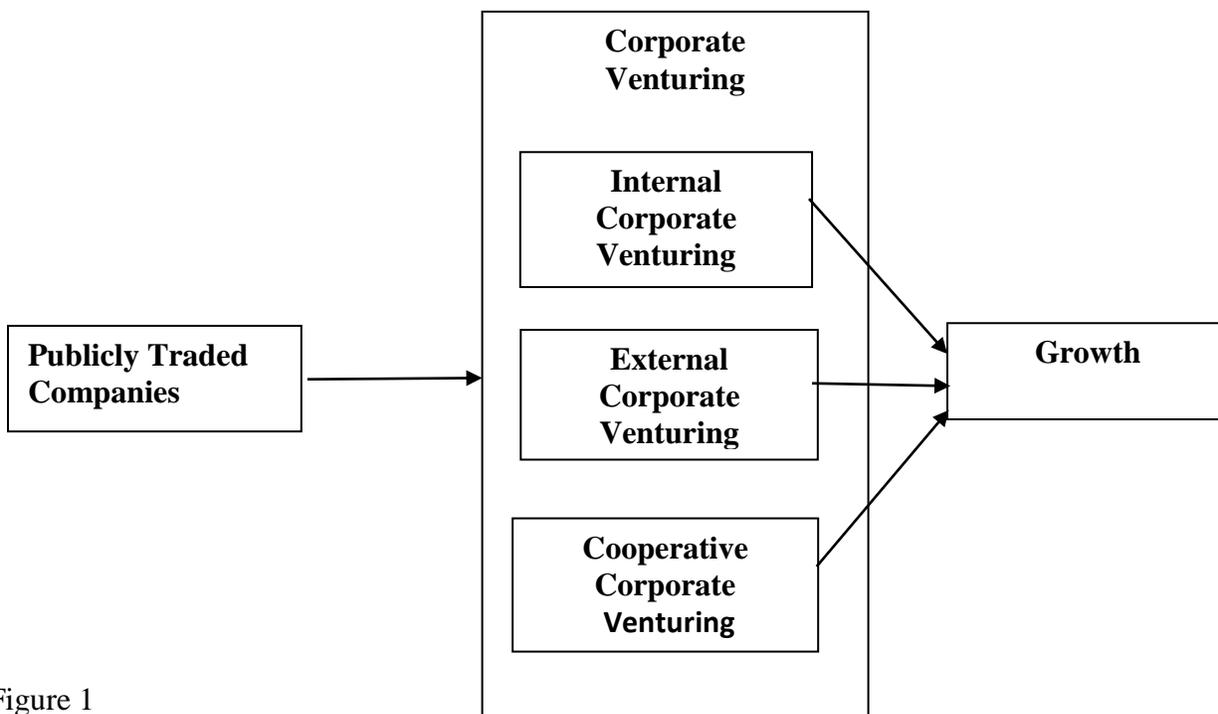


Figure 1
Conceptual framework for CV-internal, external and cooperative venturing
 Source: Authors, 2020

The study is posited on the knowledge-based theory as it emphasised knowledge among the most valuable resources that determines a firm’s new product offerings with its ability to configure resources differently, develop and implement technological development. Consequently, knowledge transfer between the parent and its new ventures is therefore critical to the success of corporate venture activities as it inflows may provide a learning vehicle that helps the parent update its knowledge base and stimulate internal technology innovation (Keil et al., 2009)). Similarly, Wadhwa et al. (2015) pointed out that firms frequently form cooperative knowledge-sharing relationships with one another to improve their innovation performance as corporate ventures are formalized inter-firm relationships that can offer partners with access to each other's resources (Dushnitsky and Shaver, 2009). Therefore, to sustain competitive advantage, corporate firms need to update their knowledge assets continuously by creating knowledge flows into their business operations (Lai et al., 2010; Yang et al., 2013).

3. Methodology

This study adopted a quantitative approach using an ex-post facto research design through a ten year (2009-2018) audited annual report and accounts. The population of the study comprised twenty-one (21) listed firms by the Nigerian Stock Exchange (NSE) out of which fifteen were sampled based on the availability of their financial statements for the periods under review. Autoregressive Distributed Lag System modelling technique was used as analytical technique.

4. Results and Discussion

Table 1

Unit Root Test Result

Variables	P-value at level	P-value at 1 st Difference	Significance
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ROE	<0.001		Level
ICV	0.27111	<0.001	1 st difference
ECV	<0.001		Level
CCV	0.3533	0.0518	NS

Source: Author's Computation (2020) using E-views 9.0

The result of the unit root test in Table 1 showed that return on equity (ROE) and external corporate venturing (ECV) were significant at $P < .01$, internal corporate venturing (ICV) was significant at first difference while cooperative corporate venturing (CCV) was neither significant at level nor first difference nor second difference.

Table 2

Co-integration Test Result

Alternative hypothesis	Statistic	P-value
Panel ADF statistic	-4.6102	0.0000
Group rho statistic	-3.4212	0.0003
Group ADF statistic	-4.1530	0.0000

Source: Author's Computation (2020) using E-views 9.0

Table 2 showed the results of the cointegration test to determine the existence or otherwise of a long run relationship between the dependent variable and the explanatory variables indicated a panel ADF statistic of -4.6102 and an associated asymptotic significant probability of 0.000 ($P < 0.001$). The corresponding statistics and associated asymptotic significant probabilities for Group rho statistic and group ADF statistic were -3.4212 (0.0003) and -4.1530 ($P < 0.001$) respectively. Thus, we reject the null hypothesis of no cointegration. The implication is that ROE and the explanatory variables (ICV and ECV) are cointegrated. In other words, a long run relationship exists between the variables. Based on the mixed stationarity statuses of the variables (stationarity of the dependent variable at level and the stationarity of the independent variables at first difference), coupled with the significance of the cointegration test, the autoregressive distributed lag model of the error correction model was employed.

Table 3

ROE vs Predictors

Variables	Coefficient	Standard Error	t-Statistic	Prob.*
Long Run Equation				
ICV	1.64E-07	2.53E-08	6.489732	0.0000
ECV	-3.51E-06	3.73E-07	-9.395145	0.0000
Short Run Equation				
COINTEQ01	-0.633727	0.076515	-8.282434	0.0000
D(ICV)	-5.57E-07	4.40E-07	-1.267653	0.2083
D(ECV)	1.31E-05	1.15E-05	1.139198	0.2577
C	21.13362	9.227999	2.290163	0.0244

Source: Author's Computation (2020) using E-views 9.0

Table 3 showed the results of the ARDL model which present the long run equilibrium relations. The cointegration equation is estimated as: $ROE + 1.64 E-07 ICV - 3.51E-06 ECVE-06 = 0$; Thus, $ROE = -1.64 ICV E-07 + 3.51E-06 ECV$

The results indicated that a unit change in ICV would lead to a -1.64 E-05% change in a firm's return on investment (ROE) while a unite change ECV would cause a 3.51 E-04% change in ROE. The results further showed that one of the explanatory variables, ICV has a negative long-run relationship with ROE while the other explanatory variable, ECV has a positive long-run

relationship with ROE. Both relationships were found to be statistically significant at the $P < 0.001$, thus indicating that at the ninety-nine per cent (99%) confidence level, it can be concluded that ICV and ECV have significant negative and positive influences respectively on a firm's return on equity.

Following the long-run coefficients of the cointegration equations, the short-run coefficients were estimated through the Error correction model (ECM) component. The results indicated that the ICV has a negative short-run relationship with ROE while ECV has a positive short-run relationship with ROE. Furthermore, the coefficient of the error correction term (ECT) is -0.6337 and this coefficient had a calculated t of -8.282 and an asymptotic significant probability value of 0.000 ($P < 0.001$). Thus, the speed of adjustment after short-run fluctuations is 63.37%. The value indicated the speed of restoration of the system to equilibrium after a previous deviation. The implication is that previous period disequilibrium is corrected at a speed of 63.37%.

The results of the study indicated that ICV is inversely (negatively) related to growth (ROE) and the negative relationship is statistically significant, thus indicating that increases in ICV lead to decreases in firm growth (ROE) and decreases in ICV lead to increases in firm growth (ROE). This finding is logical because since ICVs are entrepreneurial initiatives originating from within the business structure, they tend to put pressure on a firm's existing resources (money, materials and manpower) thus precipitating reductions in the growth (ROE). Despite the argument of Ahuja and Lampant (2001) that firms can venture into new businesses within the corporation but if the existing staff are void of appropriate knowledge to meet the new challenge, expected growth may be a mirage. Moreover, Garrett (2010) argued that most ICV may not provide the expected growth as they start with zero sales by specifically creating an independent unit (a semi-autonomous entities) for the purpose of developing new products or entering new markets which may be different from that of the parent firm. Thus, public funded firms in Nigeria investing in ICV may not have the expected growth immediately but perhaps on the long-run. The result is consistent with the findings of Birkinshaw et al. (2002), as well as Burgers, Jansen et al. (2009). However, the results contradict the findings of Garrett and Covin (2013), Kuratko et al. (2009) as well as McGrath et al. (2006).

The results further indicated the existence of a direct (positive) relationship between ECV and firm growth (ROE) and the positive relationship was statistically significant at 99% confidence level. The implication is that increase in ECV would lead to increase in firms' growth (ROE) and vis-a-vis. This is rationally logical as ECV consists of the collaborative efforts of entities that reside outside the existing organisational domain and its activities, is synergistic in nature. The findings are also supported by the knowledge-based theory because knowledge is the most strategic resources of the firm as its application is needed in the production of new products. Therefore, the professional and technical expertise of the studied manufacturing companies' employees has constituted a major asset and investment needed in managing external ventures. The result is in consonance with the previous studies of Garrett and Covin (2013), Kuratko et al. (2009) as well as McGrath et al. (2006) but in variance with some studies like Birkinshaw et al. (2002) as well as Burgers et al. (2009).

Moreover, this result showed that an insignificant relationship existed between CCV and firm growth (ROE). It differs from Kambil et al. (2000), Yan (2011) and Channon and Sammut-Bonnici (2015) who found that investment in subsidiaries add value to the venturing activities of the parent firms and considered cooperative corporate venturing as a means of an alternative business model for survival in the dynamic business environment. The paradoxical status of Nigeria, a rich country characterised with high level of corruption has led to a deteriorating economy. As such, creating abnormal scenario for businesses in the country that factors enhancing growth in other countries may not necessarily work in Nigeria. Thus, publicly funded firms in Nigeria investing in CCV may not obtain the expected growth due to the uncertainties and risks involved in the creation of subsidiaries. Furthermore, operative terms and conditions for the joint venture or collaborations may not give a foresight on the failure of expected growth before embarking on the ventures.

5. Conclusion and Recommendations

The study investigated the impact of corporate venturing on the growth of publicly traded (consumer goods manufacturing) companies in Nigeria. The findings showed that ICV and ECV have significant negative and positive impact respectively on the growth of the studied companies while CCV revealed an insignificant impact on growth.

In view of the foregoing, the following recommendations are made. Firstly, to achieve a remarkable growth in ICVs on the long-run, the parent firms should adequately coordinate the supply of tangible and intangible resources needed for the newly created ventures and earmark certain sales percentage as take-off. Secondly, management of the studied companies and other established firms should intensify on training and development of the human capital as knowledge is the most strategic resources needed in the creation, investing and adding new businesses to the corporation. Thirdly, investments in joint ventures should be taken with caution by considering: the risks and uncertainties, the business environment as well as making provision for amendments in the terms and conditions of the new ventures to allow evaluation of their successes and failures.

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