

Exploring the links between Entrepreneurial Orientation and Intrapreneurship in SMEs¹

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PURPOSE – This paper explores the links between Entrepreneurial Orientation and Intrapreneurship within the context of SMEs. **DESIGN/METHODOLOGY/APPROACH** – This conceptual paper builds on a historical review of the two main currents of the Corporate Entrepreneurship literature and the distinction established by French scholars between “traditional SMEs” and “miniature large firms”. **FINDINGS** - The paper formulates various

¹ The authors would like to thank the FNEGE foundation and Pierre-Jean Benghozi (Ecole polytechnique, CNRS) for their interest and support of this work

findings regarding the antecedents of Entrepreneurial Orientation and Intrapreneurship, highlighting differences between various types of SMEs and elaborates a series of testable propositions. PRACTICAL IMPLICATIONS – The paper emphasizes the existence of different types of SMEs and posits that the organizational and leadership antecedents of Entrepreneurial Orientation differ for each type. ORIGINALITY/VALUE – The paper explores the relation between Intrapreneurship and Entrepreneurial Orientation, thus connecting two close but unrelated streams of literature within the field of Corporate Entrepreneurship.

Key words: *Corporate Entrepreneurship, Entrepreneurial Orientation, Intrapreneurship, SME, organizational antecedents, leadership style antecedents* .

Introduction

SMEs are very diverse when it comes to their strategic orientation, which can range from very entrepreneurial to very conservative (Miller and Friesen, 1982; Miller and Toulouse, 1986; Covin and Slevin, 1989; Merz and Sauber, 1995). These studies indicate, however, that when they compete in hostile or turbulent environments, successful SMEs tend to adopt entrepreneurial postures, i.e. pursue strategies oriented towards innovation, proactiveness and risk taking.

Over the last two decades, the SME environment, in France and elsewhere, has grown increasingly turbulent and it can certainly be argued that few SMEs operate in a benign context. Hence an entrepreneurial orientation has become an increasingly important survival condition. Given these conditions, what factors permit SMEs to develop and maintain a strong entrepreneurial orientation over time becomes a central question.

A number of studies have brushed the subject but none have really explored the matter further. Studies have shown, for instance, that the personality of the SME manager owner – his or her level of inner directedness in particular – was correlated to the entrepreneurial orientation of the firm (Miller et al., 1982; Miller, 1983; Miller and Toulouse, 1986). A study of 161 American SMEs by Covin and Slevin (1989) has established a correlation between an entrepreneurial posture and an organic structure. Merz and Sauber's study of 370 SMEs (1995) indicates that internal variables such as decentralization and control formality, as well as managerial activities such as information gathering and processing, were correlated to a firm's entrepreneurial orientation. These studies all point in interesting directions but fail, in our view, to truly expose the mechanisms by which managers owners maintain a strong entrepreneurial orientation over time.

Our article takes on from there and explores the relations between Intrapreneurship and Entrepreneurial Orientation. On a conceptual plan, it attempts to integrate two literature streams which, up to now, have shared a common label '*Corporate Entrepreneurship*' but very little else. The first literature stream looks at Corporate Entrepreneurship as a firm-level phenomenon and is centred on the Entrepreneurial Orientation construct (e.g., Covin and Slevin, 1991; Zahra, 1993; Dess *et al.*, 1997). This conceptual approach lies at the heart of a large and dynamic branch of entrepreneurial studies (e.g Rauch *et al.* 2009; Lumpkin *et al.*, 2009) which could greatly benefit, according to us, from the questions raised and the results obtained by the proponents of the other conceptual approach, which views Corporate Entrepreneurship as an intra-firm process (e.g. Burgelman, 1983; Kuratko *et al.*, 1990; Kanter *et al.*, 1990, 1991; Floyd and Woolridge, 1999). This second approach, also labelled '*Intrapreneurship*', has already offered some fruitful insights within the SME context (see Carrier, 1994, 1996).

At a more applied level, we aim to explore the relations between the Entrepreneurial Orientation of SMEs and the adoption by their employees of entrepreneurial attitudes and behaviours (Intrapreneurship). We feel that this is a first but crucial step towards the identification of the mechanisms that allow managers owners to maintain a strong entrepreneurial orientation over time.

SMEs are generally characterized by a simple structure, clear strategic orientations, well informed and concerned respondents (the managers owners). However, SMEs are not all alike and it is important to avoid oversimplification by lumping them all in one single category. We build on the work of French scholars, such as Torres (1998, 2005), Messeghem (2001, 2003) and Marchesnay (1982,1991), to define relevant categories of SMEs and use these categories

to elaborate research propositions relating the Entrepreneurial Orientation of SMEs to the diffusion of intrapreneurial practices in their midst.

The article is structured as follows: we first review the two Corporate Entrepreneurship literature streams and sketch their respective evolution over time (I) and examine those research contributions specifically concerned with SMEs (II). We then go on presenting some recent French contributions to the SME literature (III). Building on the distinction between “traditional SMEs” and “miniature large firms” proposed by Torres (1998, 2005), we go on elaborating a series of research propositions relating the Entrepreneurial Orientation of SMEs to the diffusion of intrapreneurial practices in their midst (IV).

I. Corporate Entrepreneurship: one field, two unrelated conceptual approaches

Over the last three decades, two conceptual approaches have developed in parallel within the field of Corporate Entrepreneurship with little, if any, connection. The deep divide that lies between the two approaches is not the product of a bifurcation process but, on the contrary, the result of late convergence.

The field of Corporate Entrepreneurship was officially born in the early eighties with the publication of R.A. Burgelman’s seminal article (1983): “A Process Model of Internal Corporate Venturing in the Diversified Major Firm”. Burgelman used the term “Corporate Entrepreneurship” to describe the intra-firm process by which autonomous strategies gained organizational acceptance within established firms: “the impetus of Corporate Entrepreneurship lies in the autonomous strategic initiatives of individuals at the organization’s operational levels” (Burgelman, 1983). Burgelman describes how these strategic initiatives emerge, get developed in spite of numerous obstacles, and in some cases end up contributing to the strategic renewal of firms. Some years later, Burgelman further

developed his ideas on Corporate Entrepreneurship with an article on New Venture Divisions (Burgelman, 1985), which he describes as “an important innovation aimed at encouraging and facilitating Corporate Entrepreneurship.” A few years later, in her “Engine of Progress” series, R.M. Kanter presented and analysed the Corporate Entrepreneurship programs put in place by well known companies such as Kodak or Ohio Bell to “stimulate new ideas and to capture their benefits by channelling them into new products and ventures” (Kanter *et al.*, 1991a, 1991b). In the following years, a number of publications explored various facets of Corporate Entrepreneurship viewed as an intra-firm process. Among them, one could mention Birkinshaw’s (1997) study on the role of foreign subsidiaries in large multinationals’ Corporate Entrepreneurship or Chung and Gibbons’ (1997) article on the role of ideology and social capital on the creation and control of Corporate Entrepreneurship.

Organizational devices designed to foster Corporate Entrepreneurship also received a lot of attention: among the various dimensions explored by researchers, one can cite relations between innovation projects and the host organization (Heller, 1999), the functioning principles of Ventures Divisions (Chesbrough, 2000), the impact of corporate entrepreneurial devices on organizational creativity (Bouchard and Bos, 2006) or the entrepreneurial culture of large firms (Basso *et al.*, 2008; Fayolle *et al.*, 2008).

The term “Intrapreneurship” made its first appearance in scholarly journals in 1984. This neologism, which results from the contraction of “in-company entrepreneurship”, has been attributed to the consultant G. Pinchot (1985, 1987). This self-explanatory label became quite popular among the students of Corporate Entrepreneurship and a rather large literature grew under this new heading (Morse, 1986; Chisholm, 1987; Luchsinger and Bagby, 1987; Kuratko *et al.*, 1990; Merrifield, 1993; Honig, 2001, etc.) Studies in this vein tried to answer questions

such as: what are the characteristics of the intrapreneur (vs. the entrepreneur)? In what context do intrapreneurs thrive? What are the main obstacles to Intrapreneurship in large companies?

Almost simultaneously with Burgelman's articles, a series of papers on the "entrepreneurial firm" were published by a group of prominent Canadian scholars (Mintzberg and Waters, 1982; Miller and Friesen, 1982; Miller, 1983, etc.) The characteristics of entrepreneurial firms somewhat varied by the author and over time, but they generally amounted to combinations of a limited number of basic strategic orientations such as, 1) product innovation, 2) risk taking and 3) pro-activeness.

To which internal and external characteristics a firm's "entrepreneurial" orientation was associated, and under what conditions this orientation translated into superior performance, were questions that nourished a considerable stream of research and publications over the two following decades (Covin and Slevin, 1989; Zahra, 1991; Stopford and Badenfuller, 1994; Zahra and Covin, 1995, etc.)

Covin and Slevin's article (1989) on the strategic posture of small firms was the first to propose the now widely used 9-item "Entrepreneurial Orientation" scale. This measurement tool, which combined elements developed earlier by Khandwalla (1976) and Miller and Friesen (1982) with original elements, has since been used – with no or only minor modifications – in a large number of studies (Kreiser *et al.*, 2002).

The "entrepreneurial firm/entrepreneurial orientation" stream of research made its junction with the Corporate Entrepreneurship field in 1990 thanks to Guth and Ginsberg, the two guest editors of a *Strategic Management Journal* special issue on Corporate Entrepreneurship. In their editor's introduction, Guth and Ginsberg declare that "studies of Corporate Entrepreneurship have tended to focus on internal innovation or venturing but that a broader

perspective which involves the creation of new wealth through the combinations of new resources, including “actions such as refocusing a business competitively, making major change in marketing or distribution, redirecting product development and reshaping operations” should be adopted. Being the editors of an SMJ special issue, their conviction amounted to a self-fulfilling prophecy. Seven of the papers included in the issue focused on firm-level entrepreneurship while only two focused on individual new products or ventures within the firm and, in the following years, firm-level entrepreneurship scholars such as Zahra, Covin and Slevin or Stopford and Baden-Fuller, to name a few, repositioned themselves in the field of Corporate Entrepreneurship. From then on, both the firm-level and the intrafirm process approaches shared a common label but, as we have mentioned previously, very little else. Surprisingly, attempts at bridging the two approaches have been remarkably few. Exceptions worth mentioning are the contributions of Hornsby *et al.*, (1993) as well as Russell (1999). One can also evoke Brown’s attempt at operationalizing Stevenson's conceptualization of entrepreneurship and linking organizational dimensions to entrepreneurial orientation (Brown et al. 2001).

Hence, such a basic question as “is there a relation between Intrapreneurship and Entrepreneurial Orientation (EO) and which?” has remained unasked and consequently unexplored.

As we are going to see in the next part, both ‘Intrapreneurship’ and ‘EO’ approaches have already offered some fruitful insights within the SME context.

II. Exploring the links between entrepreneurial orientation and Intrapreneurship in SMEs: main findings from the literature

II.1. The entrepreneurial orientation of SMEs

SMEs have been the object of several studies trying to link various environmental, strategic and organizational characteristics to their level of performance. The personality of the manager owner, its impact on strategy and organization, and thus on performance, have also been scrutinized (Miller *et al.*, 1982; Miller, 1983; Miller and Toulouse, 1986). In “The correlates of entrepreneurship in the three types of firms” (1983), Miller describes the entrepreneurial firm as one that “engages in product-market innovation, undertakes somewhat risky venture and is first to come up with ‘proactive innovation’, beating competitors to the punch”. In this seminal article, the author defines for the first time the entrepreneurial orientation of firms as a combination of innovativeness, proactiveness and risk taking. This definition proved an enduring concept. Miller established that the determinants of firm-level entrepreneurship vary according to the firms’ type and that the entrepreneurial orientation of “simple firms” – firms that are small and operate in homogeneous but competitive environments – mainly depends on the personality of their leader.

Working on a sample of 97 Canadian SMEs, Miller and Toulouse (1986) confirmed this finding and demonstrated that the strategy, structure, decision-making process and performance of small firms were correlated to their CEO’s personality. Traits such as flexibility, need for achievement and locus of control are analyzed in this article and correlated to SMEs’ strategic orientations such as innovation, proactiveness and risk taking. Inner directedness (locus of control) appears to be associated to innovation, substantial

delegation, limited specialization and a high level of performance in dynamic environments.

We can summarize their findings in the following way:

Finding 1: SME entrepreneurial orientation and manager owner personality appear to be significantly correlated.

In 1989, Covin and Slevin publish the result of a study “designed to investigate the effective strategic responses to environmental hostility among small manufacturing firms” in which they show that “performance in hostile environments is positively correlated to an organic structure (and) an entrepreneurial strategic posture”, among others. Covin and Slevin (1989) define the entrepreneurial strategic posture as “characterized by frequent and extensive technological and product innovation, an aggressive competitive orientation and a strong risk taking propensity by top management” and measure the strategic posture of firms thanks to a 9-item 7-point scale. This scale has known a great fortune in subsequent decades (Kreiser *et al.*, 2002). A previous study by Miller (1987) on 97 Canadian SMEs established the existence of correlations between an “assertive” strategic posture (a combination of proactiveness and risk taking), integration through liaison devices and decentralization.

Finding 2: SME entrepreneurial orientation and organizational characteristics such as informality and decentralization appear to be significantly correlated.

In a 1994 paper, Covin and Slevin show that the strategies adopted by highly entrepreneurial SMEs varied significantly according to the level of technological sophistication of the industry to which they belonged. Strategic and operational orientations such as advertising investments, price policy, product range, preferred source of financing, customer credit policy, etc. varied significantly according to whether the entrepreneurial firm belonged to a high tech or a low tech industry. In this study, Covin and Slevin define entrepreneurial firms

as firms with a score of at least 5.0 on the previously mentioned 9-item 7-point strategic posture scale and confirm the fact that SMEs belonging to both low and high tech sector could display a strong entrepreneurial orientation.

Finding 3: SME entrepreneurial orientation and sector's level of technological sophistication are not significantly correlated.

In 1995, Merz and Sauber propose a taxonomy of small firms based on specific configurations of managerial activities including information gathering and processing, organizing and controlling as well as contingency variables such as the entrepreneurial orientation of the firm, environmental turbulence, size of the firm and rate of growth. They identify four distinct profiles of SME characterized by specific configurations of managerial activities, different levels of entrepreneurial orientation (measured by the level of proactiveness and innovativeness of the firm), distinct environments and firm sizes. Type III and type IV SMEs, as opposed to type I and type II SMEs, are both characterized by a marked entrepreneurial orientation, a strong focus on information processing, as well as a hostile and heterogeneous environment. The two types differ, however, when it comes to information scanning, organization and control. Type IV SMEs, which are even more innovative and proactive than type III SMEs, are characterized by intense environmental scanning activities, moderate decentralization but low formality, while type III SMEs are characterized by less intense scanning activities, a high degree of decentralization, specialization and formality.

Finding 4: Different types of entrepreneurial SMEs can be identified. The intensity of their entrepreneurial orientation seems to be correlated with some of their operational (scanning activities) and organizational characteristics (level of centralization and formality).

II.2 SMEs and Intrapreneurship

By comparison, Corporate Entrepreneurship as an intrafirm process (or Intrapreneurship) in SMEs has received little attention. The main available contribution is that of Carrier (1994, 1996). She maintained that SMEs could greatly benefit from Intrapreneurship. In a 1994 article, she compared Intrapreneurship in SMEs and in large firms: one of the main differences, according to her, is the role of top management, all important in SMEs, for good and for bad. In effect, in the SME, the manager owner is informed early of employees' initiatives and can readily provide a helping hand or, on the contrary, halt the process, depending on the initiatives' level of convergence with her strategic objectives. Carrier also underlines that Intrapreneurship in SME is rarely the result of inducement programs or intended initiatives but rather that it tends to emerge spontaneously. Another important factor in the emergence of Intrapreneurship in the case of SMEs is the attitude of the manager owner and whether he "is ready to tolerate a 'co-star'" or not. In effect, the manager owner may not be ready to share the limelight...

Finding 5: Managers owners of SMEs have a major impact on Intrapreneurship, which they can readily encourage or inhibit depending on their assessment of the level of convergence of their employees' initiatives and their personal attitude towards their employees.

Before we build on these findings to elaborate our research propositions, we want to question the apparent simplicity of our unit of analysis – the SME. We will resort to recent development in French research to challenge the findings previously mentioned and formulate additional hypothesis to be tested.

III. The SME as an heterogeneous unit of analysis: a French perspective

In the French speaking academic community (e.g. Torres and Julien, 2005), but not only (Aldrich and Auster, 1986 ; Curran, 2006), there is an ongoing debate regarding the nature of SMEs: are SMEs to be considered “small big businesses” or organizational entities of their kind? Or, according to a third option, do we have to take different types of SMEs into consideration? SMEs may be endowed with particular traits and could differ considerably when it comes to entrepreneurial orientation and diffusion of intrapreneurial practices. The stake is high for the research field and we therefore choose to follow Torres (1997) when he declares that “it is not enough to select a company by the sole criterion of size to conclude that it belongs to the category of SMEs“. SMEs are of various kinds and their population therefore escapes homogeneity. The impact on our planned study could be significant and the SME/large firm simple dichotomy, if challenged, needs a more precise distinction.

Most researchers – and corporate entrepreneurship scholars are no exception (e.g. Carrier, 1994; Covin and Slevin, 1989; Miller, 1983) adopt a quantitative definition of SMEs. With small size – measured by revenue or number of employees – come some typical weaknesses. As Levratto (2004) put it, the implicit starting point is very often a Schumpeterian representation of SMEs which are seen “as unable to internalize technological dynamism and autonomously reach the minimum efficiency that go with economies of scale. The result is a deprived organization with an inadequate financing structure, an ill-adapted internal structuring (...) that displays weak ties with the market and that strives to counterbalance this disadvantage through a reactive behaviour”. SMEs are viewed as inferior creatures that have to fight particularly hard in order to survive.

Numerous scholars (e.g. Miller and Toulouse, 1986; D’Amboise and Muldowney, 1988; Julien, 1997) have strived to isolate the essential characteristics of SMEs. Several so-called

distinctive parameters have been identified: a small size, a centralised management, a low degree of specialization, an implicit strategy, little planning and poor information systems. According to this perspective, the SME is “a whole, where all the functions are integrated or at least highly connected, and where the owner manager controls every aspect, manages several functions and is personally involved in some of them” (Julien and Marchesnay, 1992).

An interesting perspective is provided by Guilhon (1998). She argues that “SMEs remain SMEs as long as the CEO masters a controllability zone ensuring consistency between goals and performance through the interaction between competencies, structures and positioning within the market.” The CEO centrality turns out to be a major characteristic of SMEs. (Let us note that even if CEO centrality is highly correlated with size, the two variables are not substitutable).

For some authors (Torres 1998, Messeghem, 2003), the unique SME model is overly restrictive and unable to account for the way in which SMEs are able to deal with complex issues such as globalization (Torres, 1998) or the adoption of ISO 9000 standards (Messeghem, 2001). Confronted with these challenges, SMEs no longer exhibit the traditional features associated with the “hypofirm”, to use Marchesnay’s term (Marchesnay 1982; Marchesnay and Julien, 1990). On the contrary, significant differences appear that are not due to differences in size. Furthermore, some SMEs “with a very strong entrepreneurial orientation also have highly bureaucratic structures” (Messeghem, 2003). This may be explained by the fact that firms with a very strong entrepreneurial orientation adopt managerial practices that allow them to satisfy their customers’ expectations (Messeghem, 2003).

The linkage between size and the traditional SME form is no longer considered as kernel or at least sufficient to define the essence of this class of firms (Torres, 1997). On the contrary, it

appears that some counter examples can be identified that are challenging the theory of size as a discriminator for SMEs. They help reveal the confusion often made between “small sized business” and “small business”. Different contexts require different organizational and managerial responses: “the management centralization found in the classical small business structure quickly becomes a source of dysfunction in a global context (...) Similarly the preference of small business managers for more informal media and oral communication quickly becomes ineffective in many international contexts.” (Torres and Julien, 2005).

Our review of French speaking scholars’ contributions indicates that the SME label probably subsumes two distinct populations: a first one which encompasses small companies with specific organizational characteristics, a second one which includes small companies whose organization is not radically different from that of larger firms. The metaphor of “the miniature large company” is fully relevant here.

Finding 6: Two types of SMEs therefore emerge: the “traditional SME” which is characterized by the centrality of the manager owner, limited planning and information gathering activities, informal structure and processes, and low specialization. This type can be opposed to the “miniature large firm” type with a less central manager owner, more planning and information gathering activities, some formalization of structure and processes, and specialization.

We should bear in mind this important distinction when investigating SMEs entrepreneurial orientation and intrapreneurial practices.

IV. Linking Entrepreneurial Orientation and Intrapreneurship in SMEs: research propositions

Because of their centrality (Marchesnay, 1991), managers owners of SME have a major impact on both the Entrepreneurial Orientation of their firm and the diffusion of

Intrapreneurship in its midst. This impact can be direct or mediated by strategy making and organizational variables (focus on information processing activities, organic nature of the organization, level of decentralization and formality, etc.), variables which SMEs managers owners also control to a large extent.

SMEs can occupy a wide range of positions on the conservative-entrepreneurial strategic posture continuum, depending on the personality of their manager owner and various contingent variables. Similarly, Intrapreneurship can be greatly encouraged or inhibited in SMEs, depending on the personality of the manager owner and various contingent variables. At the moment, we have little indication as to whether and how Entrepreneurial Orientation and Intrapreneurship are related. The existence of various categories of SMEs pursuing different strategies (Covin and Slevin, 1994) and managed according to different philosophies (Merz and Sauber, 1995), seem to indicate that this relation is complex. Our fundamental hypothesis is therefore the following:

Proposition 1: In SMEs, Entrepreneurial Orientation and Intrapreneurship are not simply correlated and one should be able to observe both the following combinations: high EO/developed Intrapreneurship, high EO/no Intrapreneurship.

Entrepreneurial SMEs therefore fall into two distinct categories: those in which the manager owner is favourable to and encourages Intrapreneurship and those in which the manager owner is not favourable to and does not encourage Intrapreneurship. Both approaches can be conducive to success.

We can enrich our set of propositions thanks to our previous acknowledgment that the SME is by no means a homogeneous species. We thus establish a distinction between “miniaturized large firms” and “traditional SMEs”.

The traditional SME is characterized by the absolute centrality of the owner manager, limited scanning activities and a high level of informality. These characteristics are *a priori* not conducive to the diffusion of intrapreneurial practices which require autonomy on the part of employees (Lumpkin *et al.*, 2009), combined with fluid circulation of information and simple but clear rules of the game (Bouchard, 2009). We can therefore posit that entrepreneurial “traditional SMEs” are managed by individuals who find it difficult to trust and delegate strategic and exploratory activities but are themselves highly innovative, risktaking and proactive.

Proposition 2: In traditional SMEs, a high EO will not be associated to diffuse Intrapreneurship practices

On the contrary, “miniature large firms” are characterized but a somewhat reduced centrality of the manager owner, more planning and scanning activities and a higher level of formality of organization and processes. While a very high level of formalization is certainly a major deterrent to the diffusion of Intrapreneurship, a moderate level of formalization is, on the contrary favourable (cf. Merz and Sauber, 1995; Bouchard, 2009) to Intrapreneurship. Decentralization and intense information gathering (scanning) activities are also favourable conditions. We can therefore advance that:

Proposition 3: In “miniature large firms”, a high EO will generally be associated with diffuse Intrapreneurship practices.

From there on, various research designs can be pursued:

- Quantitative studies that attempt to establish the existence of both *High EO/low Intrapreneurship* and *high EO/diffuse Intrapreneurship* categories SMEs ;

- Qualitative studies which focus on a few representative cases of the two identified categories and map the mechanisms that allow managers owners to maintain a strong Entrepreneurial Orientation over time ;
- Quantitative studies that attempt to measure the frequency of the various categories of SMEs in a given industry and that try to establish statistical correlations between the three key variables (EO, Intrapreneurship and SME type).

Conclusion

The article's main contribution lies in the elaboration of a set of three hypotheses that derive from our reflective analysis of the literature. As we have previously stated, the research on corporate entrepreneurship seems to be divided into two different streams that have developed very little connection, be it when it comes to large companies or to SMEs.

Focusing on SMEs, we have shown that the question of the relation between Entrepreneurial Orientation and Intrapreneurship diffusion within SMEs proves to be significantly complex when one takes into account the very nature of the unit of analysis. The "French approach" of the problem provides an interesting distinction between "traditional SMEs", characterized by the absolute centrality of the owner manager, limited scanning activities and high level of informality, and "miniature large firms", whose design and managerial style appear to be more formal and closer to the specificities of large companies.

Building on this research platform, we have formulated three propositions that aim to test the linkages between Entrepreneurial Orientation and Intrapreneurship. Doing so, we hope to open new tracks for promising researches on the topic.

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