Corporate Entrepreneurship and Organizational Performance

Theoretical Perspectives, Approaches and Outcomes

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Abstract

Corporate entrepreneurship has been of interest to scholars and practitioners due to its beneficial effect on firm performance and competitiveness. It is a concept that is fast gaining importance and is the panacea of the future for corporate organizations operating in a dynamic and competitive environment. The quest for competitive advantage and improved performance can no longer be found simply in lower costs, or higher quality, or better services. Instead, it lies in adaptability, flexibility, speed, aggressiveness and innovativeness, all aspects of entrepreneurship. The increasing demand for faster product development, more features in smaller products, higher and uniform quality, stability and lower prices, demands for an entrepreneurial and flexible company with the right environment and systems that stimulate entrepreneurship in its employees. The concept of intrapreneurship is characterized by new business venturing, innovativeness, self-renewal and pro-activeness. In a supportive environment, employees have the opportunity to work independently, are given tremendous latitude and are expected to generate and implement new ideas to enhance firm performance. Firm performance as a result of corporate entrepreneurship results from development of new products and services, improvement of old ones; new and improved processes and systems which improve efficiencies. Therefore, firms with high corporate entrepreneurial intensity experience better performance in form of growth and profitability.

Key Words: Corporate entrepreneurship, intrapreneurship, organizational performance, new business venturing, innovativeness, self-renewal, pro-activeness, risk taking.

Background

Technological and market changes seem to occur faster than expected, and Peter Drucker’s old saying that the only constant thing in business is change seems true and the fast-changing business environments, changing business structures and rules of competition are becoming part of the ordinary life of most companies, as these are prerequisites for staying in business (Drucker, 1958). Firms need to establish competitive advantage through differentiation and continuous innovation, whether it is related to the creation of new products and services, production, organizational processes or business models. This requires adaptability, flexibility, speed, aggressiveness and innovativeness, all boiling down to one word; corporate entrepreneurship.

There is increasing demand for faster product development, more features in smaller products, higher and uniform quality, stability and lower prices, requiring an entrepreneurial and flexible company with well-structured and effective organization (Christensen, 2004). In modern business setup, corporate managers are unanimous in their desire to make their employees and organizations more entrepreneurial (Herbert et al, 1999). The challenge is to create a supportive environment that attracts, motivates and retains intrapreneurs;
to instill a culture of innovation where renegades are empowered to pursue dreams and to fail without retribution. Corporate entrepreneurship is closely related to improved organizational performance in terms of growth and profitability (Covin & Slevin, 1991). The outcome ranges from new products to new markets, processes and systems (Pearce & Carland, 2001). Therefore, high level of performance is linked with high level of corporate entrepreneurial intensity. Identifying and fostering corporate entrepreneurship within a firm is justified precisely because the intrapreneur will develop new products and ideas, which will ultimately improve the firm’s performance.

Purpose
The purpose of the analysis is to explore the meaning and role of corporate entrepreneurship in organizational performance. Today’s business environment is characterized by a rapidly growing number of new and sophisticated competitors, a sense of distrust in the traditional methods of corporate management and the overall desire to improve efficiency and productivity (Kuratko & Hodgets, 1998); and corporate entrepreneurship is a response strategy. To survive and thrive, enterprises need to create and continually renew a spirit of disciplined corporate entrepreneurship as the source for continuous generation of disruptive innovations (products and services) that alter the rules of the competitive landscape in their favour (Cole, 1959). There is adequate empirical evidence that corporate entrepreneurship is closely linked to improved enterprise performance (Drejer et al., 2004; Lindsey, 2001; Herbert & Brazeal, 1999; Holt, 1992; Covin & Slevin, 1991; Pinchot 1985 & Schumpeter, 1934). Ayudurai and Sohail (2005) contend that if corporate entrepreneurship can be used as a competitive tool, then its development and significance must be explored and highlighted.

Results and Analysis
The results are presented under concept of corporate entrepreneurship, dimensions and elements of corporate entrepreneurship, the environment and organizational systems for corporate entrepreneurship, approaches to stimulate corporate entrepreneurship, outcomes of corporate entrepreneurship.

The Concept of Intrapreneurship
Corporate entrepreneurship, sometimes referred to intrapreneurship has been used in many organizations as a major strategy for organizational renewal and improved performance. Corporate entrepreneurship is a process by which individuals inside organizations pursue opportunities without regard to resources they currently control (Stevenson & Jarillo, 1990). When effectively promoted and channeled, corporate entrepreneurship not only fosters innovation but also helps employees with good ideas to better channel the resources of an enterprise to develop more successful products.

In response to the rapid changes in the business environment, enterprises are unanimous in their desire to make their employees and organizations more entrepreneurial (Herbert & Brazeal, 1999). The entrepreneurial process has applicability to organizations of all sizes and therefore, allows employees to be entrepreneurs, applying their creativity to create innovative new products or services. In a corporate set-up, such persons are called intrapreneurs, defined by Pinchot (1985) as persons who take the hands-on responsibility for creating innovation of any kind within an organization. He calls them corporate commandos; courageous souls who form underground teams and networks that routinely bootleg the company resources. They make things happen, creating new commercial successes. They violate policy, ignore the chain of command, defy established procedures and come up with new great products for the company.
Corporate entrepreneurship is a concept that embraces innovations as a key ingredient: product extensions or re-formulations, process re-engineering or cost-cutting, seeking untapped markets, new applications of existing products / services, new ventures; all not being part of the normal marketing and product development efforts of the firm. Miller and Friesen (1982) argue entrepreneurial firms are characterized by their strong willingness to innovate while taking risks in the process.

In the Schumpeterian innovation concept, corporate entrepreneurship involves the pursuit of creative or new solutions to challenges confronting the firm, including the development or enhancement of old and new products and services, markets and administrative techniques and technologies for performing organizational functions. In this context, changes in strategy, organizational structures and systems and methods of dealing with competitors may all be seen as innovations in the broadest sense of the term (Schumpeter, 1934). Though many organizations commonly acquire ideas or innovations internally, there are a number of situations where some organizations seek innovative ideas externally (exopreneurship) in form of franchising, sub-contracting and strategic alliances (Chang, 1999). However, the most common practice is that organizations first seek ideas intrapreneurially from employees, and then move to the divergence in sourcing innovations externally.

The three most pronounced elements of organizational entrepreneurial activities are new venture formation (incubative entrepreneurship), product / service innovation and process innovation. In the words of different researchers, corporate entrepreneurship includes extensiveness and frequency of product innovation (Covin & Slevin, 1991), new product development, product improvements and new production methods and procedures (Schollhammer, 1982), products and services as well as techniques and technologies in production (Knight, 1997).

**Dimensions and Elements of Corporate Entrepreneurship**

Though there is consensus that corporate entrepreneurship is beneficial for the organization, there is still disagreement on the actual dimensions of the corporate entrepreneurship construct (Covin & Miles, 1999). Various researchers (Miller, 1983; Miller & Friesen, 1983; Lumpkin & Dess, 1996; Covin & Miles, 1999; Antoncic & Hisrich, 2001) argue that the construct could be classified into four dimensions, namely; new business venturing, innovativeness, self-renewal, and pro-activeness.

New business venturing is the most salient characteristic of corporate entrepreneurship since it can result in new business creation within an existing organization (Stopford & Baden-Fuller, 1994) by redefining the company's products or services (Rule & Irwin, 1988; Zahra, 1991) and/or by developing new markets (Zahra, 1991). In large corporations, it could also include formation of more formally autonomous or semi-autonomous units or firms (Schollhammer, 1981, 1982; Hisrich & Peters, 1984). For all organizations regardless of size, the new business venturing dimension refers to the creation of new businesses that are related to existing products or markets regardless of the level of autonomy. In contrast, the innovativeness dimension refers to product and service innovation with emphasis on development and innovation in technology (Schollhammer, 1982; Covin & Slevin, 1991; Zahra, 1993; Knight, 1997). The third dimension, self-renewal, reflects the transformation of organizations through the renewal of key ideas on which they are built (Guth & Ginsberg, 1990; Zahra, 1991). This has strategic and organizational change connotations that include the redefinition of the business concept, reorganization and the introduction of system-wide changes for innovation (Zahra, 1993), new strategic direction (Vesper, 1984) and continuous renewal of the organization. The final dimension, pro-activeness, is related to aggressive posturing (Knight, 1997) and...
leadership relative to competitors (Covin & Slevin 1991), risk-taking (Stopford & Baden-Fuller, 1994), initiative-taking (Lumpkin & Dess, 1996) and boldness and aggressiveness in pursuing opportunities (Covin & Slevin, 1991).

Antoncinc and Hisrich (2000) argue that the principal emphasis in the new business-venturing dimension is on pursuing and entering new businesses related to a firm's current products or markets. The innovativeness dimension is primarily concerned with the creation of new products, services and technologies. The self-renewal dimension focuses on strategy reformulation, reorganization and organizational change; and, the pro-activeness dimension reflects the orientation of top management in pursuing enhanced competitiveness and includes initiative and risk-taking, competitive aggressiveness and boldness.

**The Environment and Organizational Systems for Corporate Entrepreneurship**

The single most important factor in establishing an "intrapreneur-friendly" organization is making sure that the employees are placed in an innovative working environment. Rigid and conservative organizational structures often have a stifling effect on intrapreneurial efforts. Firms that establish a culture of innovation are likely to see tangible results; with the key being the ability the firm support, with economic and technical resources, expedited with decision-making processes. It should be able to demonstrate the willingness to break with traditions by embracing initiatives that run counter to the way it has done things in the past. Intrapreneurs thrive on the freedom which fuels their innate desire to innovate.

Therefore, for corporate entrepreneurship to flourish in an enterprise, the leadership has to be willing to listen to and recognize good ideas whenever and from whom they arise. This is part of the wider effort to create an intrapreneurial culture and should also include cutting the red tape so that anyone can come forward with an idea on how to improve any aspect of the business, no matter where that person fits on the organizational chart; freedom to fail with accumulated lessons learnt from each leading to ultimate success. Another important element of creating an intrapreneurial culture is the opportunity to share credit equitably and across the board and willingness to break precedent. Every enterprise must have processes and rules of procedure and behaviour but those which do not apply due to changing business conditions, situations and opportunities should be discarded to create way for establishing new precedents to respond to new opportunities.

According to Kuratko and Hodgets (1998), companies wishing to establish corporate entrepreneurship need to provide the freedom and encouragement intrapreneurs require in developing their ideas. The four major steps to establish such an environment are; setting explicit goals mutually agreed by workers and management, creating a system of feedback and positive reinforcement, emphasizing on individual responsibility and giving rewards based on results.

Internal organizational factors that stimulate corporate entrepreneurship include the company’s incentives and control systems (Sathe, 1985), culture (Hisrich & Peters, 1986; Brazeal, 1993), organizational structure (Naman & Slevin, 1993); and management support (Kuratko et al., 1993). These factors either individually or in combination are believed to influence corporate entrepreneurial behaviour. Antoncic and Hisrich (2001); Stevenson and Jarillo (1990) argue that organizational support activities such as top management support, denoting the willingness of managers to facilitate and promote entrepreneurial activity in the firm; commitment and style, as well as the staffing and rewarding of venture activities, and training and trusting of individuals to detect opportunities are important factors that stimulate corporate entrepreneurship. Other
factors include autonomy / work discretion; appropriate use of rewards / reinforcement; resources, which include time and their availability for entrepreneurial activity (employees must perceive resources for entrepreneurial activity); existence of supportive organizational structure and organizational boundaries; risk taking which indicates the employees and managers’ willingness to take risks and show a tolerance for failure when it occurs.

Instilling an intrapreneurial environment includes making sure that communication systems within the organization are strong so that intrapreneurs who have new ideas for products or processes can be heard; intelligent allocation of resources to pursue intrapreneurial ideas and rewarding intrapreneurs. Since they are such important resources, they should be rewarded accordingly, both in financial and emotional terms. While intrapreneurs may not want to go into business for themselves, but they still have a hunger to make use of their talents and a wish to be compensated for their contributions. If an enterprise is unable or unwilling to provide sufficient rewards, then it should be prepared to lose that intrapreneur to another organization that can meet his/her desires for professional fulfillment.

This above viewpoint is supported by Blyers and Rue (1997) in their argument that the free enterprise system is based on the premise that rewards should be based on performance. The performance - reward relationship is desirable not only at the enterprise or corporate level but also at the individual level. The underlying theory is that employees will be motivated when they believe such motivation will lead to desired rewards. Therefore, rewards or pay rises based on performance are more likely to make employees experience a feeling of accomplishment and satisfaction, thereby increasing their intrapreneurial propensity.

Covin and Slevin (1991), and Zahra (1993), have suggested that the firm’s external environment needs to be taken into account when considering the relationship between corporate entrepreneurship and firm performance. The external environment has been suggested as influencing entrepreneurial activity with certain environmental characteristics such as dynamism, technological opportunities, industry growth and demand for new products being favourable for corporate entrepreneurship (Antoncic & Hisrich, 2001).

**Strategies to Stimulate Corporate Entrepreneurship**

There are a number of approaches that can encourage the creativity that leads to profitable innovations within an enterprise. They include inundating “creativity – inclined” people with exhortations to “think outside the box”, to think “sideways” about problems and to “network” with others with different perspectives; offering rewards and recognitions to successful innovators; exhorting supervisors and gate - keepers to be receptive to new ideas, to wink at and ignore time taken from assigned projects and applied to unauthorized ideas and by-passes to bureaucratic procedures created for new ideas (Herbert & Brazeal, 1999).

According to Kuratko and Hodgetts (1992), when attempting to create an intrapreneurial strategy, organizations should be aware that a corporation that promotes personal growth will attract the best people. Corporate Entrepreneurship embodies entrepreneurial efforts that require organizational sanctions and resource commitments for purpose of carrying out innovative activities in the form of product process and organizational innovations (Jennings & Young, 1990). This view is consistent with Damanpour (1991) who points out that corporate innovation is a very broad concept, which includes the generation, development and implementation of new ideas or behaviours. In this context, an innovation can be a new product or service, an administrative system or a new plan or programme.
The two common approaches used to stimulate intrapreneurial activity as skunkworks and bootlegging (Bateman & Zeithaml, 1993). Skunkworks refers to project teams designated to produce a new product. Such a team is formed with a specific goal and has a specified time frame with a respected person chosen to manage the skunkworks. In this approach to corporate innovation, risk-takers are not punished for taking risks because their jobs are held for them and they have opportunity to earn large rewards. In bootlegging, managers and workers make informal efforts to create new products and processes; sometimes secretive when a bootlegger believes the enterprise will frown on these activities. However, the intrapreneurial organization should tolerate and encourage bootlegging as it may result into innovative products and process to enhance its competitiveness.

Lindsey (2001) argues that rapid and cost-effective innovation may be the only method by which enterprises in the 21st century and beyond will be able to remain competitive. Companies that strive for such innovation to assure their survival and efficiency find that a transformation to an entrepreneurial management style will facilitate their endeavour. This will entail creation of an environment within the enterprise in which employees can take direct responsibility for turning an innovative idea into a profitable finished product or venture, must be willing to be intrapreneurial or willing to do any job needed to advance their project regardless of their job description; share credit widely; remember it is easier to ask for forgiveness than permission; ask for advice before asking for resources; come to work each day willing to be fired; keep the best interests of the company and its customers in mind while bending the rules; be true to their goals, but realistic about how to achieve them; under-promise and over-deliver and honour and educate their sponsors.

The common intrapreneurial management strategies include sharing the business strategy, communicating the enterprise’s vision for the future while opening the door for all employees, regardless of level to assist in achieving the vision’s goal; creating implementation channels that are unobstructed and safe to ensure broad idea distribution; supporting intraprise launch, by providing a corporate sponsor (manager) for the intrapreneur, who will have responsibility for cutting through the red-tape and non-constructive politics, getting resources for the idea, helping establish achievable milestones, providing intrapreneurial training, sheltering the intrapreneur when he/she makes original mistakes, being part of the intraprise and ensuring that the project remains intact and gets proper recognition.

Other strategies are diagnosis and improvement of innovation climate. Innovation is much more efficiently accomplished when done in a supportive environment. This will entail the creation and maintenance of organizational attitudes such as corporate vision acceptance, risk, mistake and failure tolerance, innovation cooperation, customer focus acceptance, organizational community acceptance and honest and transparent communication acceptance.

**Outcomes of Corporate Entrepreneurship**

It is evident that corporate entrepreneurship can give grounds for competitive advantage of an existing enterprise. The manifestations of such competitive advantage may be (i) differentiation or cost leadership in the market, (ii) quick response to any changes, (iii) new strategic direction or new ways of working or learning within the organization (Covin & Myles, 1999). There is a strong relationship between corporate entrepreneurship and firm performance. Lumpkin and Dess (1996), and Wiklund (1999) contend that firm performance is generally multi-dimensional in nature and that suitable indicators should include both growth and financial performance measures. Wiklund (1999) suggests that sales growth has high generality and a
suitable measure of growth given that sales growth also reflects increased demand for a firm’s products or services. But as Zahra (1991) notes, growth itself is not sufficient to measure firm performance as in some instances, a firm might choose to trade-off long-term growth for short-term profitability. Accordingly, Wiklund (1999) suggests that measures of both growth and profitability provide a better indication of overall firm performance.

Marcus et al. (1999) on the impact of intrapreneurial programmes on Fortune 500 manufacturing firms revealed positive results on sales, profits and return on investment resulting from development and commercialization of new products. Another study by Antoncinc and Hisrich (2000) on corporate entrepreneurship modeling in transition economies with a comparison of Slovenia and the United States also revealed a positive relationship between the presence of corporate entrepreneurship and enterprise performance; measured in form of growth and profitability. The same was true of a study by Zahra et al. (2000) which showed positive results on net income, return on assets, sales growth and revenue growth.

Further studies by Miller and Friesen (1982) found out that the rate of growth in sales for entrepreneurial firms was significantly higher than the rate of growth in sales of conservative firms, indicating that corporate entrepreneurship had a positive relationship with firm performance. Zahra et al. (1999) recognize the importance of learning and knowledge creation as outcomes of intrapreneurial activities, grounds for competitive advantage and a basis for superior performance of the enterprise. Enterprise performance does not only include financial performance, but also non-financial manifestations such as customer satisfaction as well as job satisfaction of the employees.

A proposed Model for Corporate Entrepreneurship

A critical synthesis and analysis of the concept of corporate entrepreneurship, its dimensions, manifests and outcomes, has stimulated greatest interest and as a result thereof, the author proposes an integrated model for corporate entrepreneurship (Figure 1). The proposed model borrows heavily from those proposed by other theorists ((Heinonen & Korvela, 2003; Hornsby et al., 1993). The proposed model is on the premise that corporate entrepreneurship efforts result in increased performance and therefore, firms that engage in intrapreneurial activities are expected to achieve higher levels of growth and profitability than organizations that do not. However, for this to happen, a number of factors must be in play. The factors range from external to organizational and individual factors (precipitating events), all working together or singly to create an environment that stimulates and promotes corporate entrepreneurship in a corporate setup. Corporate entrepreneurship manifests itself in form of new business venturing, innovativeness, self-renewal and pro-activeness. The outcome of these intrapreneurial activities is improved firm performance in form of growth and profitability as supported by Wiklund (1999).
Figure 1: Proposed Corporate Entrepreneurship Model (Samuel Obino Mokaya, 2012)
Conclusions
Corporate entrepreneurship is closely related with firm performance, with firms experiencing high performance levels characterized by high intrapreneurial intensities. It is also evident from the analysis that corporate entrepreneurship is applicable to firms of all sizes. Firms that nurture organizational structures and values conducive to intrapreneurial activities and have intrapreneurial orientations are likely to experience better performance results. Intrapreneurial organizations engage in new business venturing, are innovative, continuously renew themselves and are pro-active. For corporate entrepreneurship to work effectively as a function of performance, it requires the existence of an organizational environment and systems that encourage and stimulate employees to act and behave intrapreneurially as supported by Chang (1998) who contends that the relationship between entrepreneurial posture and firm performance is moderated by environmental conditions. Therefore, corporate entrepreneurship is critical for profitability and survival of firms.

Recommendations
1. Corporate entrepreneurship should be pursued as a competitive and performance improvement strategy by all firms regardless of size.
2. For corporate entrepreneurship to thrive, firms need to put in place an environment with support systems, structures and resources that encourage employees to behave entrepreneurially.
3. In determining the effects of corporate entrepreneurship on firm performance, various measures of growth and profitability should be considered as its application is diverse and cuts across many organizational aspects.
4. Further studies are recommended on the relationship between corporate entrepreneurship practice, intrapreneurial behaviour of employees and firm performance.

References


