

CREATING CORPORATE ENTREPRENEURSHIP THROUGH STRATEGIC LEADERSHIP

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ABSTRACT

Strategy is not what it used to be. To compete effectively, large businesses must respond quickly, creatively and innovatively to develop an entrepreneurial environment to assist this response. Strategic leadership is crucial to develop the organizational environment needed to increase the entrepreneurial orientation in established businesses. The purpose of this paper is to determine if the salient organizational factors that aid in the development of the corporate entrepreneurship (CE) capability are applicable in the South African context. A cross sectional telephone survey of 315 South African companies indicated that strategic leadership of an enterprise is crucial to develop and support CE. Strategic leadership which encourages autonomy and provides rewards for entrepreneurial behaviour creates a supportive organizational structure to strengthen corporate entrepreneurship.

Keywords: *strategic leadership, corporate entrepreneurship, organizational structure*

INTRODUCTION

Many business executives concur that the ability to drive business growth and implement new, innovative ideas are some of the top priorities of organizations in the twenty first century (Drucker, 2002; Rigby, 2003; Planting, 2006; Morris, Kuratko & Covin, 2008). However the management of innovation and corporate entrepreneurship (CE) is complex, challenging and filled with risk (Ahmed, 1998:30). The implementation of innovation and CE cannot be achieved by paying “lip service” to the ideal of increased innovative activity (Hof, 2004). A firm commitment to building the CE capability and a supportive organizational climate is needed for an organization to become “entrepreneurial” (Fahden, 1998; Mokoena, 1999). However, a certain kind of leadership is necessary to create and support this entrepreneurial orientation. Strategic leadership has been put forward by various authors as an approach to establish an innovative environment conducive to build organizational, human, social and structural capabilities (Hitt & Ireland, 2002; Bennis, 1997; Goffee & Jones, 2000; Ireland & Hitt, 1996).

This paper aims to achieve this objective by firstly reviewing the CE and leadership literature, secondly examining the relationship between a supportive organizational climate and the CE capability and formulating research hypotheses; thirdly by reporting the research design and results and finally by examining the implications for theory and managerial practice.

DEFINING CORPORATE ENTREPRENEURSHIP (CE)

Corporate entrepreneurship (CE), generally, refers to the development of new business ideas and opportunities within large and established corporations. In most cases, CE describes the total process whereby established enterprises act in an innovative, risk-taking and pro-active way (Zahra, 1993; Dess, Lumpkin & McGee, 1999; Bouchard, 2001). This behaviour has various outcomes, such as the new products, services, processes or business development. CE may be chosen as a strategy to result in increased financial performance. It also leads to other non-financial benefits, such as increased morale of employees, collaboration and a creative working environment (Hayton, 2005). It may result in “new” organizations being created as “spin-out ventures” (Hornsby, Naffziger, Kuratko & Montagno, 1993; Altman and Zacharckis, 2003) or it may involve the restructuring and strategic

renewal within an existing enterprise (Volberda, Baden-Fuller and Van den Bosch, 2001). CE is a multi-dimensional phenomenon. Corporate venturing, intrapreneurship and strategic renewal are, therefore, different components of CE (Hisrich and Peters, 2002; Covin and Slevin, 1989). In this study, the authors propose that CE be regarded as a process through which both formal and informal initiatives are encouraged, aimed at the creation of new products, services, processes and businesses to improve and sustain a company's competitive position and financial performance.

Many authors subscribe to the view that *firm-level entrepreneurial orientation* serves as an indicator of the CE capability. Firm-level entrepreneurial orientation is reflected by three dimensions: innovativeness, pro-activeness and risk-taking (Miller & Friesen, 1983; Covin & Slevin, 1991; Zahra, 1991; Knight, 1997). However some authors, such as Lumpkin and Dess (1996) argue that five dimensions, not three should be used to measure entrepreneurial orientation, namely autonomy, competitive aggressiveness, pro-activeness, innovativeness and risk-taking. In contrast with their views, this paper argues that autonomy is an internal organizational driver of CE, which influences the organizational climate for CE. Furthermore, competitive aggressiveness forms part of the pro-activeness dimension and does not represent a separate dimension. Other researchers also support this view (Morris, Allen, Schindehutte and Avilla, 2006; Kreiser *et al.*, 2002). The traditional school of thought view these three dimensions as contributing equally and in the same direction to entrepreneurial orientation (Miller & Friesen, 1983; Zahra, 1991; Barringer & Bluedorn, 1999), while the other school of thought led by Kreiser *et al.* (2002) and supported by Lumpkin and Dess (1996) argue that the three dimensions vary independently of one another. For the purposes of this paper, the authors subscribe to the views of Kreiser *et al.* (2002) in this regard. Each of these dimensions will now be analysed in more detail.

The international CE literature acknowledge that innovativeness, risk-taking and pro-activeness, as dimensions of the CE capability are influenced by the organizational climate within an enterprise (Ahmed, 1998; Morris & Kuratko, 2002; Hornsby, Kuratko & Zahra, 2002; Ngo & Lau, 2004; Martins & Terblanche, 2003).

FACTORS INFLUENCING THE ORGANIZATIONAL CLIMATE FOR CORPORATE ENTREPRENEURSHIP

Hornsby *et al.* (2002) built on the work of other authors and identified a set of organizational factors that are important facilitators of CE activities. These factors are strategic leadership and support for CE, empowered, autonomous employees, the use of appropriate rewards for CE, the availability of resources, especially time, and a supportive organizational structure. Based on extensive research in the field, Hornsby *et al.* (2002) developed and refined the Corporate Entrepreneurship Assessment Instrument (CEAI) to measure the five internal drivers of CE in enterprises.

Strategic leadership and support for corporate entrepreneurial strategy

The first factor as a facilitator for CE activities is strategic leadership. Ireland and Hitt (1999:42) defines strategic leadership as “a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization.” The same authors elaborate on describing this viable future of the organization as one of creating value, and where the resources are configured that capabilities can be leveraged in ways to create competitive advantages (Hitt & Ireland, 2002). Other authors describe strategic leadership as the ability to create fit and alignment in all business levels (Beer, Voelpel, Leibold & Tekie, 2005), to establish the basic vision of the organization (Hough, Thompson, Strickland, Gamble, 2008), to appropriately balance the induced and autonomous processes with matching cycles of strategic dynamics (Burgelman & Grove, 2007), managing resources and that these managerial activities are a vital part of what is often a demanding work load for executives (Kotter, 1982). The link between strategic leadership and innovation (Elenkov & Wright, 2005), leadership and strategic management

(Westley & Mintberg, 1989), strategic leadership and super-growth companies (Tonge, Larsen & Ito, 1998) is well known.

New research confirms the linkages between strategy and leadership (Montgomery, 2008), leadership, strategy and competition (Porter, 2008), strategy and performance, (Kaplan & Norton, 2008) and leadership, ownership and value orientation (Kanter, 2008). These strategy experts agree that (strategic) leadership is the driver to add value to the firm and to ensure that companies' use their capabilities to differentiate themselves from their competitors.

The above discussion provides a solid base for "strategic leadership" and its various attributes to support viable and sustainable innovation, competitive advantages and capabilities for the firm. It captures the encouragement and willingness of managers to facilitate CE activities within an enterprise (Hornsby *et al.*, 1993; Goosen, 2002). These types of support should encourage employees to solve problems in innovative ways, seek opportunities in a pro-active manner and embark on moderately risky projects; therefore the following hypothesis is postulated:

Hypothesis 1: Strategic leadership and support for CE is positively related to innovativeness, pro-activeness and risk-taking, thus to firm-level entrepreneurial orientation..

Empowered, autonomous employees

The second organizational factor facilitating CE activities is the degree to which employees are empowered and function autonomously in their jobs. This factor refers to the discretion and extent that employees are empowered to make decisions about performing their own work in the way they believe is most effective. In entrepreneurial work environments employees are allowed to make decisions about their work processes and are seldom criticised for making mistakes when innovating (Hornsby *et al.*, 2002). This tolerance of failure should facilitate innovative, pro-active and risk-taking behaviours in employees, therefore the following hypothesis is postulated:

Hypothesis 2: Autonomy and empowerment of employees is positively related to innovativeness, pro-activeness and risk-taking, thus to firm-level entrepreneurial orientation.

Rewards for corporate entrepreneurship

A third organizational factor encouraging entrepreneurial behaviour is the appropriate use of rewards for CE. Rewards and reinforcement develop the motivation of individuals to engage in innovative, proactive and moderate risk-taking behaviour (Kanter, 1989; Fry, 1987; Goosen, 2002). Theorists, therefore, stress that an effective reward system that spurs entrepreneurial activity must consider goals, feedback, emphasis on individual responsibility, and performance-based incentives. The use of appropriate rewards can also enhance managers' willingness to assume the risks associated with entrepreneurial activity. Innovative organizations are characterised by providing rewards based on performance, offering challenges, increasing responsibilities, and promoting the ideas of innovative people throughout the organization (Kuratko & Hodgetts, 2004). Therefore, it is expected that:

Hypothesis 3: Rewards for CE is positively related to innovativeness, pro-activeness and risk-taking, thus to firm-level entrepreneurial orientation.

Time and resource availability

The fourth organizational factor supporting the CE capability is the availability of resources, which seems best to be portrayed by time availability. To consider acting in entrepreneurial ways, employees need to perceive resources as accessible for CE activities (Pinchot, 1985; Covin & Slevin, 1991; Kreiser *et al.*, 2002). For new and innovative ideas to thrive, individuals should have time to incubate their ideas. Organizations should be reasonable in assigning the workload of their employees and allow employees to work with others on long-term problem solving. In entrepreneurial work

environments, employees are allowed to conduct creative, entrepreneurial experiments in a limited portion of their work time (Von Hippel, 1977; Kanter, 1989; Morris, 1998). Thus, the following hypothesis can be postulated with regard to time and resource availability:

Hypothesis 4: Time availability is positively related to innovativeness and pro-activeness.

Supportive organizational structure and organizational boundaries

The final organizational factor facilitating CE is the existence of a supportive organizational structure and boundaries (Morris, 1998; Lumpkin & Dess, 1996). A supportive organizational structure provides the administrative mechanism by which ideas are evaluated, chosen, and implemented (Goosen, 2002). However, a bureaucratic organizational structure leads to perceived boundaries, preventing people from noticing problems outside their own jobs. People should be encouraged to look at the organization from a holistic perspective. Organizations should avoid having standard operating procedures for all major parts of jobs and should reduce dependence on narrow job descriptions and rigid performance standards (Kuratko, Montagnano & Hornsby, 1990; Hornsby *et al.*, 2002). Thus, the following hypothesis can be postulated:

Hypothesis 5: Supportive organizational structures and boundaries are positively related to innovativeness and pro-activeness.

To summarise, the key factors of a supportive organizational climate facilitating CE should be characterised by strategic leadership and support for CE, rewards for CE, empowered employees who enjoy intrapreneurial freedom and autonomy, resource and time availability for CE and a supportive organizational structure and limited boundaries between departments.

RESEARCH DESIGN

The sample of firms that participated in the study included 315 companies, operating in South Africa. The following criteria was employed to select the sample (1) awareness of innovation practices and processes, by participating in the annual SA e-business survey, conducted by Trialogue (Hartley & Worthington-Smith, 2004); (2) active in e-business, since technological changes over the last five years have forced many enterprises to overcome technological challenges in innovative manners (Hartley & Worthington-Smith, 2004); and (3) accessibility to firms, since few comprehensive updated databases exist in South Africa. The two main groups in the sampling frame were companies listed on the Johannesburg Stock Exchange (JSE) and companies operating in the information and communication technology industry (ICT). JSE companies were identified by using the register of all listed JSE operating companies at the end of 2004. ICT companies were identified, using the database obtained from IT Web in February 2005 (IT Web, 2005). The initial sample consisted of 715 companies. The key respondent (informant) targeted in JSE companies was the Information Technology (IT) manager or the Chief Information Officer (CIO), while the Chief Executive Officer (CEO) or Sales Manager was the key respondent in ICT companies.

Data was collected by a cross-sectional telephone survey between August to October 2005. The administration of the telephone surveys was preceded by a pilot study, involving interviews with middle and senior level managers of 41 companies in Gauteng, South Africa. The purpose of the pilot study was to assess the face validity and reliability of the measurement instrument. Based on the results of the pilot study the questionnaire was refined.

DATA ANALYSIS AND HYPOTHESES TEST RESULTS

Descriptive statistics and correlation coefficients were used in the initial descriptive analysis. Structural equation modelling were used to assess the hypotheses. The correlation matrix shown in

Table I indicate statistically significant correlations for the CE dimensions and three of the five organizational factors, which facilitate CE activities.

Table I: Correlation matrix for the variables assessed

Variable	1	2	3	4	5	6	7	8
1. Innovativeness								
2. Risk-taking	0.34							
3. Pro-activeness	0.42**	0.42**						
4. Entrepreneurial orientation	0.77**	0.77**	0.77**					
5. Strategic leadership and support for CE	0.29**	0.29**	0.31**	0.38**				
6. Autonomy	0.18**	0.29**	0.14**	0.27**	0.55**			
7. Rewards for CE	0.30**	0.18**	0.13*	0.27**	0.53**	0.44**		
8. Time availability	0.07	0.04	-0.01	0.05	0.26**	0.26**	0.20**	
9. Organizational structure	0.04	-0.02	0.03 [†]	0.02	-	-	-	-
					0.21**	0.24**	0.31**	0.14*

n = 315

[†]p<.10; *p<0.05; **p<0.01

Based on the CE literature, it was decided to construct a simple structural equation model of the influence of the organizational climate factors on the entrepreneurial orientation of firms. It was decided to modify the theoretical model, by omitting the measures, which did not contribute significantly to a construct, for example time availability and organizational structure. The subsequent Structural Equation Model (SEM) generated is shown in Figure I.

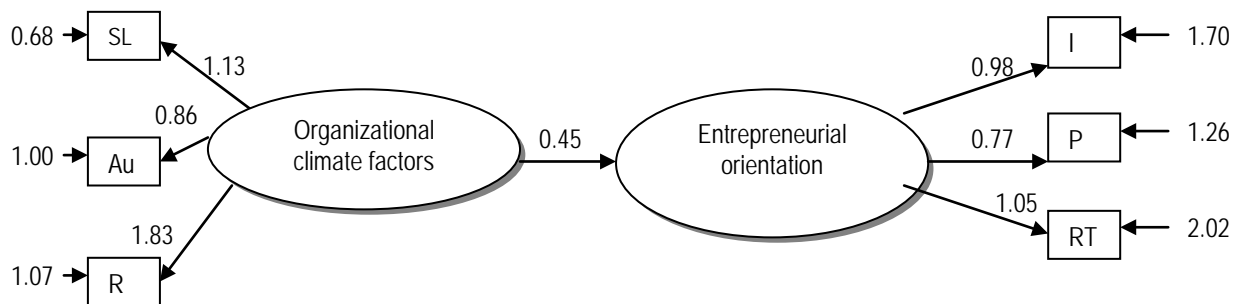


Figure I: A representation of the modified Structural Equation Model for the internal organizational factors and firm-level entrepreneurial orientation

Figure I shows that strategic leadership (SL) and support for CE , autonomy (Au) and rewards for CE (R) contribute significantly to assess the organizational climate factors, since the paths from these variables exceed the 0.70 threshold (Hair, Black, Babin, Anderson & Tatham, 2006). Entrepreneurial orientation is measured by innovativeness (I), pro-activeness (P), and risk-taking (RT), which paths also exceed the 0.70 threshold recommended by Hair *et al.*, (2006:747). The organizational climate factor construct has a significant influence (0.45) on the CE capability. This finding suggests that that the entrepreneurial orientation is a construct that could be managed and improved by focusing on the organizational climate factors of strategic leadership and management support for CE, rewards for CE and allowing employees to function autonomously.

For the firms in the sample, there is a positive relationship between strategic leadership and support for CE and the three dimensions of the CE capability: innovativeness, risk-taking and pro-activeness. There is also a positive relationship between strategic leadership and support for CE and the entrepreneurial orientation of an enterprise. Regarding hypothesis two, a positive relationship exists between the autonomy of employees and risk-taking ($p < 0.01$), however no relationship was found between autonomy and innovativeness or pro-activeness. The structural equation modeling supports the assertion that empowered, autonomous employees facilitates the CE capability.

Concerning hypothesis three a positive relationship exists between rewards for CE and innovativeness ($p < 0.001$), however no relationship was found between rewards for CE and pro-activeness or risk-taking. The structural equation modeling supports the assertion that rewards for CE facilitates the CE capability. Hypothesis four, which postulated a positive relationship between time availability and innovativeness and pro-activeness, was not supported. Hypothesis five, which postulated a positive relationship between loose organizational boundaries and innovativeness and pro-activeness, was also not supported.

CONCLUSION

The results of this study suggest that the dimensions of firm-level entrepreneurial orientation are most strongly influenced by strategic leadership and support for CE, autonomy of employees and rewards for CE, thus creating a supportive organizational structure. Autonomy of employees showed the strongest relationship with risk-taking, while rewards for CE encourage innovativeness.

On the basis of the SEM, the organizational climate factors strategic leadership, rewards and autonomy are significant and enable managers to focus on building a supportive organizational climate for CE inside their organizations. Thus, the most crucial organizational factor which facilitates CE is strategic leadership and top management support for CE.

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