

Chapter 4

THE ENTREPRENEURIAL UNIT IN A CORPORATE ENVIRONMENT

4 INTRODUCTION

This chapter endeavours to understand entrepreneurship as a response to the pressures and challenges of the new business landscape. The reasoning commences by exploring the concepts innovation, risk taking and pro-activeness, generally perceived as the requirements for companies to effectively respond to environmental dynamism, hostility and complexity. This is followed by a definition and description of entrepreneurship in a corporate setting, as well as current manifestations and perceptions about this phenomenon. A number of case studies are referenced to understand the concept of entrepreneurship as it finds application globally. This is succeeded by a review of the differences between bureaucracies and entrepreneurial companies. Obstacles for change are identified. The chapter ends with a set of guidelines for introducing and sustaining the entrepreneurial spirit in a corporate environment.

4.1 Environmental context and entrepreneurship

Chapter 3 described the characteristics and drivers of the new business environment. It highlighted the roles of the technological revolution and globalisation and concluded that the new landscape is in essence a new definition of competitiveness. The chapter also looked at factors to enhance competitiveness, such as the management of technology, the need to become more innovative and the need to establish certain key competencies. The chapter concluded by hypothesising that a paradigm shift is required in our thinking about organisations in order to meet the challenges of the changing game.

4.1.1 Innovation, risk-taking and proactiveness

From the previous chapter it would therefore be safe to surmise that the environmental turbulence faced by companies, including subsidiaries of global corporations, requires **innovation, risk-taking and proactiveness** on the part of management. Entrepreneurship involves all three elements (Miller, 1983; Covin & Slevin, 1991 a, b; Lumpkin & Dess, 1996; Zahra & Covin, 1995). **Innovation** refers to the creation, development and introduction of new products, processes, systems and organisational forms (Guth & Ginsberg, 1990; Schumpeter, 1950). **Risk-taking** alludes to the willingness to pursue goals and undertake action even when the results are uncertain (Miller, 1983; Morris, 1998), and may require *calculated* risk-taking (Stevenson & Jarrillo, 1990; Baden-Fuller & Stopford, 1994). **Proactiveness** denotes a company's commitment to initiate changes in its industry, rather than respond to the competition (Miller, 1983; Lumpkin & Dess, 1996). A proactive company is aggressive in its strategic moves (Knight, 1997) and is among the first to initiate strategic changes to pursue emerging opportunities (Covin & Covin, 1990).

Several authors have recognised the importance of entrepreneurship of a subsidiary company for the overall success of a global corporation. For example, Bartlett & Ghoshal (1990) highlighted the importance of *dispersed entrepreneurship* throughout Philip's international operations as a key determinant of that company's global success. Philip's subsidiary in Canada created the company's first colour TV; Philips of Austria created the first stereo TV; and Philips of the UK created the first TV with teletext capabilities. Kogut (1990) notes the importance of *local entrepreneurship* within a global corporation. It provides the possibility that innovations, in response to local market demands, may be internationally useful.

Organisational researchers generally agree that higher levels of turbulence and uncertainty call for more flexible, innovative and entrepreneurial management practices (Davis, 1999). Contemporary business pressures have forced companies to place a high priority on identifying individuals suited for entrepreneurial roles and to emulate an entrepreneurial environment in which these managers can operate relatively unencumbered within the larger organisational structure. This supports the belief that the intelligence required by organisations today is not the genius of a few great strategists at the top, or to have many *smart* people throughout the organisation. Many *smart* people could not save long-gone bureaucratic firms. To achieve organisational intelligence, the system must support large numbers of people in applying their intelligence in a free, yet coordinated way (Pinchot & Pinchot, 1993).

4.1.2 Entrepreneurship as a response to environmental turbulence.

Numerous new organisational forms have been proposed for ensuring the continuous strategic renewal of a firm. These forms are all distinguishable by an emphasis on

bottom-up entrepreneurship and a reliance on a cooperative network that allows these entrepreneurial units to share their competencies with one another (Chakravarthy & Gargiulo, 1998).

Establishing and nurturing entrepreneurial behaviour and practice so that they become part of an organisation's culture and ethos can therefore provide the opportunity to initiate corporate renewal and to create innovation (Robinson, 2001). According to Echols & Neck (1998), the more the organisation can exhibit entrepreneurial qualities, and its people believe in behaving entrepreneurially, the greater the firm's ability to achieve maximum innovation or entrepreneurial success.

There are many examples that point to the entrepreneurial venture as a model for rapid growth. Besides providing the structure, it also opens up possibilities for individuals with diverse interests, strengths, talents and motivation to become part of this structure (Luczkiw, 2002). It is proposed that companies can significantly increase the odds of survival and subsequent success in their foreign markets by behaving entrepreneurially (Zahra *et al*, 2001). Entrepreneurship embodies innovation and venturing activities, which are crucial to the conception, development and execution of an innovative and effective global strategy that creates value for the company and its shareholders.

Entrepreneurship enables a company to deliver greater value to its customers, shareholders and other stakeholders. In a study of Japanese firms it was found that firms with entrepreneurial cultures outperformed those which emphasized internal efficiency (Chung & Gibbons, 1997). A study of 437 Swedish firms found that entrepreneurship is positively associated with performance (Wiklund in Zahra *et al* 2001). A recent study by Zahra & Garvis (in Zahra *et al*, 2001) found that entrepreneurship in the international operations of 167 companies was related to company performance. Morck and Yeung (in Zahra *et al*, 2001) also found that entrepreneurship significantly moderates the effect of multinationality on a company's financial performance.

For the foreseeable future there may be a **growing need for entrepreneurs** to develop structures, systems, processes and strategies that can deal with the emerging complexities – whether for start-up entities or for large monolithic organisational structures and their existing paradigms, unable to take advantage of their opportunities (Accenture 2001).

Entrepreneurial behaviour can be present at any stage of an organisation's evolution: from start-up, to development and building, to renewal and exploitation of innovation on a grand scale. Entrepreneurial behaviour can deliver value in a wide variety of ways: promoting innovation in products and services, developing different ways of doing business, or building more effective services.

Sharma (1999:11) defines entrepreneurship as follows: “*Entrepreneurship encompasses acts of organisational creation, renewal or innovation that occur within or outside an existing organisation. Entrepreneurs are individuals or groups of individuals, acting independently or as part of a corporate system, who create new organisations, or instigate renewal or innovation within an existing organisation*”.

In line with this, a growing body of evidence suggests that an entrepreneurial orientation is critical for the survival and growth of companies as well as for the economic prosperity of nations (Lee & Petersen, 2000).

Most enterprises in the developed, and developing world, are facing frequent, irregular and significant changes in their environment, which shorten the life span of both present products and future opportunities. The enterprises that seem best able to deal with these changes are those that focus on opportunity recognition and capture - in other words, those that engage in the entrepreneurial process (Churchill *et al*, 1997).

4.2 Entrepreneurship in the corporate environment

Entrepreneurship is all too often taken to mean the **creation of new businesses**. Yet nowhere is it more important – or, often, more elusive, than in large, established companies. According to a study by Accenture (2001), entrepreneurship is crucial in the corporate world and especially challenging to create or sustain in established or mature companies.

In their well known publication, *In search for excellence*, Peters and Waterman (1982) claim that the biggest draw back of corporate life is it's loss of innovation – that very innovation that made them successful. Many large companies have therefore lost the entrepreneurial spirit they began with. As these firms have grown larger, their ability to be flexible and innovative may have been paralyzed due to size and success.

The question therefore is whether large companies can be entrepreneurial. The challenge to large companies is to encourage a sense of innovation, autonomy and entrepreneurship, despite the required structure and systems of the bureaucracy. Another challenge is to leverage their resource advantage while acting quickly, efficiently and effectively and move faster than specialized, newer and smaller organisations (Figueroa & Conceicao, 2000).

Covin & Miles (1999) identifies four forms of corporate entrepreneurship required:

- sustained regeneration (ability to regularly introduce new products or enter new markets, e.g. 3M, Motorola, Mitsubishi);
- organisational rejuvenation (alteration of internal processes, structures, and/or capabilities, e.g. Procter and Gamble, General Electric, Chrysler Corporation);

- strategic renewal (articulating strategy for navigating it's current environment, e.g. Harley-Davidson, IBM);
- domain redefinition (creation and exploitation of new product-market arenas, e.g. Merrill Lynch, Sony).

4.2.1 Background to entrepreneurship in large corporations

Entrepreneurship in large companies (sometimes called corporate entrepreneurship, intrapreneurship or corporate venturing) is nothing new. As early as 1978, Gifford and Elizabeth Pinchot argued for something akin to free market entrepreneurship within the corporate organisation (Pinchot & Pinchot, 1978). The concept of corporate entrepreneurship received much attention in academic writing in the late 1980s and early 1990s. Since the mid-1980s intrapreneurship has been identified as a corporate strategy with characteristics such as costs and rewards that differ from traditional strategic archetypes. Exploration of the meaning and nature of intrapreneurship brought forth calls for building organisational systems, structures and processes to support entrepreneurship as a corporate strategy.

At this point it is important to note that the **intrapreneur** is often taken to differ substantially from the true **entrepreneur**. For example, intrapreneurs would rather operate within an existing organisational structure in accordance with established corporate systems while reporting to hierarchical supervisors. Intrapreneurs need to be fairly adept at corporate politics, but many independent entrepreneurs deplore this behaviour and resist traditional organisations in order to avoid it. Intrapreneurs are likely to possess some competencies characteristic of independent entrepreneurs and others characteristic of more traditional managers (Davis, 1999). While these terms are sometimes used interchangeably, and while intrapreneurship is proposed as a minimum requirement in modern companies, the preference is towards fostering (the more *daring* and, probably, even more *powerful*) *entrepreneurial* spirit in companies.

Furthermore, while companies generally understand the term *intrapreneurship* and describe companies' cultures as intrapreneurial, the terms *creativity* and *innovation* are much more prevalent (Accenture, 2001). There is however a broad recognition that the generation of new business activities or *new combinations* alone does not constitute entrepreneurship (Birkinshaw, 1997). Entrepreneurship suggests a predisposition towards proactive and risk-taking behaviour, the use of resources beyond the individual's direct control or a clear departure from existing practices. This study will assume that innovation and entrepreneurship go together, that entrepreneurs innovate, and that innovation is the specific instrument of entrepreneurship (Robinson, 2001).

Corporate entrepreneurship therefore involves individuals or teams within a firm, led by intrapreneurs, entrepreneurs or corporate champions who promote entrepreneurial

behaviour inside large organisations, proactively engaging in risky projects that seek to create new, innovative, administrative procedures, products and services that facilitate organisational renewal and growth (Thomson & McNamara, 2001). It means fostering profit-making innovations by encouraging employees to think like entrepreneurs, and then giving them the freedom and flexibility to pursue their projects without getting bogged down in bureaucratic inertia. It is not a specific technique or process, but rather a particular management philosophy for which executives have a responsibility to instil and support within the organisation. (Stoner et al in Echols & Neck, 1998).

Stevenson and Jarillo (in Chung & Gibbons, 1997) identify the *crux* of corporate entrepreneurship as the fact that opportunities for the firm have to be pursued by individuals within the firm. Thus aligning individuals' interests, motivating them to organise and resolve uncertainties, search for opportunities, and encouraging them to cooperate in the creation of new resource combinations and to exploit them successfully becomes a critical discriminator between firms that prosper, survive, and flounder.

A question is, how do corporate initiatives originate? A study based on case study analyses of forty-four initiatives, both successes and failures (Birkinshaw & Ridderstrale, 1999), found that subsidiary initiatives take two different forms: internally-focused initiatives and externally-focused initiatives. Internally-focused initiatives are identified within the corporation, and are perused through a traditional bottom-up approach; externally-focused initiatives are based on opportunities in the external marketplace. The most successful ones gain allies outside the corporation early on, and only confront the corporate immune system once they are relatively well established.

4.2.2 The case for entrepreneurship in large companies

While entrepreneurship is especially critical in the corporate world, it is often nowhere more elusive than in large, established companies (Accenture, 2001). Large corporations show a tendency to become bogged down by the systems and procedures needed to help them cope with their complexity and size. Many large corporations are therefore seen by their staff, potential employees and customers, as excessively bureaucratic, slow-moving and risk-averse.

However, the study by Accenture (2001) shows how entrepreneurship can be applied to great effect within large corporations, citing 3M, BP and Sony as some of the inspiring examples of companies that have managed to foster entrepreneurial cultures with consequential tremendous results. Corporate entrepreneurship has indeed been successfully initiated in established organisations for purposes of profitability,

strategic renewal, fostering innovativeness, gaining knowledge and international success (Hornsby, Kuratko & Zahra, 2002).

Some of the main advantages of entrepreneurship in large companies can be summarised as follows:

a. **Survival, growth and renewal**

A growing body of evidence suggests that an entrepreneurial orientation is critical for the survival and growth of companies (Lee and Peterson, 2000). The enterprises that seem best able to deal with frequent, irregular and significant changes in their environment are those that engage in the entrepreneurial process (Churchill *et al*, 1997). It is postulated that companies can significantly increase the odds of survival and subsequent success in their markets by behaving entrepreneurially (Zahra *et al*, 2001). Robinson, 3M's business development manager of medical markets, believes that entrepreneurship can produce either radical or incremental change within an organisation that can enable it to maintain or enhance its competitive advantage (Robinson, 2001).

b. **Business performance**

The linkage between corporate entrepreneurship and a firm's performance has been empirically documented in methodologically rigorous research (Covin 1999, Zahra & Garvis in Zahra *et al*, 2001; Twomey & Harris, 2000) and it is suggested that corporate entrepreneurship produces superior firm performance for identifiable, defensible and strategically valid reasons. According to 3M's Robinson, intrapreneurship can improve an organisation's financial and market performance by creating additional shareholder value (Robinson, 2001). *Dispersed entrepreneurship* throughout Philips' international operations is given as a key determinant of that company's global success (Bartlett & Ghoshal, 1990).

c. **Successful integration of mergers and acquisitions**

Firms that created an environment which fostered corporate entrepreneurship soon after acquisition, are the firms that remained within the acquirer's portfolio (Thomson & McNamara, 2001). Those that did not foster corporate entrepreneurship in the years following acquisition were divested within five years. The success of post takeover integration is, amongst other things, reflected in the ability to address the dilemma of to either save costs today through redundancies or gain potential benefit in the future through innovative redeployment of underemployed human resources. Thomson & McNamara (2001) propose that the dilemma can be solved through corporate entrepreneurship.

d. **Social investment and job creation**

When communities (including companies) facilitate the creation of small companies by providing infrastructure, resources and quality of life that appeal to those who are choosing entrepreneurial career paths, job creation is stimulated (Stevenson & Jarillo in Chung & Gibbons, 1997). Entrepreneurial behaviour can impact far beyond any one organisation. Accenture (2001) reports an 80% survival rate for SME's enjoying large company support. The following examples also support this claim:

- **The creation of new job opportunities outside the company.** British Steel provided help to create more than 100 000 job opportunities by, amongst other initiatives, providing more than 3500 businesses with either finance or premises (A Stimulus to Job Creation, 1997).
 - **The prevention of job losses due to retrenchments.** Centrica, the retailing and supply arm for British Gas, was given the opportunity to de-merge and adopt an entrepreneurial strategy of growth rather than retrenchment (Accenture, 2001). Clark Equipment survived Chapter 11 by requiring all units (including a staff of 500 people) to become self-supporting enterprises (Accenture, 2001).
- e. **Other advantages.** Some other advantages of stimulating the entrepreneurial spirit in large companies can be summarised as follows:
- the competence domain gets extended, current capabilities are enhanced and new, unanticipated opportunities are defined (Burgelman, 1984).
 - sustained regeneration is ensured, which means companies have the ability to regularly introduce new, unanticipated products or new markets, for example 3M, Motorola and Mitsubishi (Covin & Miles, 1999);
 - innovation is supported by challenges to the status quo and the elimination of organisation structures that obscure personal responsibility and homogenize individual action (Robinson, 2001).
 - markets are transformed - instead of following the traditional approach of minimizing or avoiding risks, and following fast rather than acting first (Covin & Miles, 1999);
 - a higher order of organisational learning takes place (Chaston *et al*, 2001).
 - the speed of decision-making increases because their shorter chain of command enables them to make rapid decisions and grab opportunities before larger, more bureaucratic operators, can react.

4.2.3 Some characteristics of entrepreneurship in large corporations

4.2.3.1 Strategy and structure

An entrepreneurial company (autonomous or a unit in a larger corporate setting) is usually characterised by its unique entrepreneurial strategy and a uniquely designed structure. In this regard, Hewson Consulting Group (2000) provides some indicators of such a strategy and structure:

- a business design that harnesses direct customer contact and extreme frugality;
- profit centers with as few as ten people;
- managers in uncushioned, direct contact with customers, responsible for profit and directly accountable to shareholders.

4.2.3.2 Entrepreneurial climate and practices

It appears as if the most important thing is to ensure the right climate for entrepreneurship within a corporation. Such a climate should remove fears and prevent the hierarchy and bureaucracy from drawing innovation down (Maxon, 1986). Kuratko *et al* (1993) state that the climate should emphasize individual responsibility and rewards based upon results. Both Maxon (1986) and Kuratko *et al* (1993) highlight management practices such as the following, as supportive of an entrepreneurial climate:

- the presence of explicit goals;
- a system of feedback and positive reinforcement;
- training for entrepreneurship;
- a reward system based on results.

4.2.3.3 Behaviour

People identified as entrepreneurs in companies usually show a predisposition towards active, risk-taking behaviour and the use of resources beyond the individuals direct control. Behaviour is also characterised by a clear departure from existing practices (Birkinshaw, 1997). Kanter (in Birkinshaw, 1997:208) proposes the following distinction between *basic* and *entrepreneurial activities*:

“Basic accomplishments... are part of the assigned job and require routine and readily available means to carry them out. In contrast, innovative accomplishments are strikingly entrepreneurial. They are sometimes highly problematic and generally involve inquiring and using power and influence.”

Accenture (2001) identifies five key behaviours:

- **Creativity and innovation.** This behaviour is perceived to be the heart of entrepreneurship. As much as 26% of US companies and 21% of European companies have more than 10% of sales coming from new products. More than 40% of turnover of Glaxo-Smith-Kline comes from products launched in the last five years. The majority of Hewlett Packard's revenue originates from products that did not exist a year before.
- **The ability to apply creativity.** Entrepreneurs have the ability to get things done. They can effectively marshal resources to a single end. Dhruv Sawhney, Chairman and MD of Triveni Engineering and Industries in India, states that successful entrepreneurs don't just have ideas; they are part of the delivery mechanism.
- **Drive.** Entrepreneurs have a fervent ability to change the way things are done, and the force of will and passion to achieve success. They simply have the will to go beyond.
- **Focus on creating value.** Entrepreneurs want to do things better, faster and cheaper.
- **Risk-taking.** Entrepreneurs enjoy taking risks, breaking rules, cutting across accepted boundaries and going against the status quo. Some entrepreneurs are motivated by the challenge; others possess such self-belief that they do not even see risks in their path.

4.2.3.4 Personality characteristics

A study of more than 2000 small and medium sized enterprises, including Profit 100, High Growth Companies as well as an exhaustive review of global research, yields the following observations that have helped to understand the entrepreneur's modus operandi, intrinsic motivation and individual sense of meaning (Davis, 1999; Kuratko, 2001; Luczkiw, 2002):

- Entrepreneurs as individuals are agents of change who break with existing ways of doing things in order to create what has not been created before.
- Successful entrepreneurs are in control of their destiny. They transcend their culture and genetic determinants by becoming conscious of their uniqueness and differentiation.
- Successful entrepreneurs are expert collaborators and networkers inside and outside their enterprise. It is this integration, along with their uniqueness and differentiation, which determines the success of their enterprise.

- They deal effectively with chaos and crisis. They view this as a normal condition. They are survivors of many battles. Most have failed at least once in a previous endeavour.
- Attitude is considered to be more important than knowledge and skills in determining their success.

4.2.3.5 Teamwork

Corporate entrepreneurship involves teams within a firm, led by intrapreneurs or corporate champions, who promote entrepreneurial behaviour inside large organisations. These teams proactively engage in risky projects that seek to create new, innovative, administrative procedures, products and services that facilitate organisational renewal and growth (Thomson & McNamara, 2001).

4.2.3.6 Differences between entrepreneurial and bureaucratic organisations

Since the purpose of this study is to describe the transformation from traditional organisations to an entrepreneurial unit, it is important to understand the main differences between the two. Ross & Unwalla (1986) draw the following distinction between entrepreneurial and bureaucratic organisations (see Table 4.1).

Table 4.1
Differences between entrepreneurial and bureaucratic organisations

Entrepreneurial	Bureaucratic
<ul style="list-style-type: none"> ▪ Take risks ▪ Stay innovative ▪ Focus on results ▪ Focus on teamwork ▪ Do technical work ▪ Stay flexible ▪ See the organisation as a system ▪ See change as good ▪ Tolerate and learn from mistakes ▪ Believe managers are motivated by creating something out of nothing 	<ul style="list-style-type: none"> ▪ Avoid risks ▪ Do routine work ▪ Focus on activities ▪ Focus on structure ▪ Do administrative work ▪ Have tight controls ▪ Practice parochialism and “nichemanship” ▪ Prefer the status quo ▪ Avoid and punish mistakes ▪ Believe that managers are motivated by upward movement in an established structure

Source: Ross & Unwalla, 1986

4.2.4 Perceptions on entrepreneurship in corporations.

It appears that most CEOs today agree that entrepreneurial behaviour can be found in a multi-national organisation, employing thousands of people or in a one-person company (Accenture, 2001). A study by Accenture in 2001, in which 880 executives across the world were surveyed, revealed the following interesting phenomena:

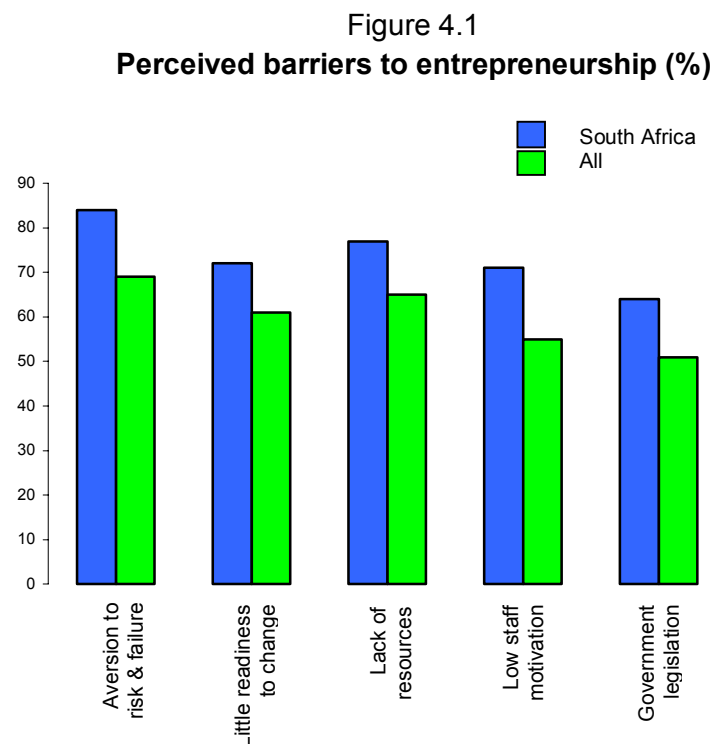
- less than 3 in 10 think their companies are very entrepreneurial because companies, as they become successful, bigger and more complex, also become excessively bureaucratic;
- 88% think that their country's future prosperity depends on everyone becoming more entrepreneurial and 95% said training and education could enhance people's ability to be entrepreneurial;
- 98% think that entrepreneurship is a **positive force in society**, 94% think that entrepreneuring creates jobs and 90% think entrepreneurship will help to improve the global economy;
- 89% say that they are visibly acting entrepreneurially, while 83% believe they are communicating pro-entrepreneurial values to employees;
- 70% believe their organisations will be more entrepreneurial in three years' time;
- 90% said that companies and organisations are the most influential in encouraging entrepreneurship, acting as role models across society;
- 98% of South African executives agree that South Africa must become more entrepreneurial within the next five years for it to prosper.

Some negative perceptions still persist. Some argue that it will be near impossible for an individual company to remain or to become entrepreneurial if the society in which it does business (and recruits its staff from) view entrepreneurial behaviour as being dangerous or inappropriate (Accenture, 2001). In this regard the following data from the Accenture Survey is quite interesting:

- 17% of executives in the Accenture survey could not name a single entrepreneurial company.
- In corporations as well as across many societies, entrepreneurial behaviour is regarded as somehow illegitimate, and showing a desire to succeed is frowned upon.
- At IBM, a corporation noted for building an entrepreneurial spirit, some executives worry that encouraging too much creativity will result in higher turnover of critically valuable personnel.

- South African organisations face relatively high hurdles (compared to the world average) in their bid to become more entrepreneurial. As high as 55% of South African executives agree that people in the country have a more negative attitude towards entrepreneurs, compared with the world average. South African executives are also more likely to regard their peers as imbued with more key entrepreneurial characteristics than their staff.

Perceived barriers to entrepreneurship. Figure 4.1 depicts the perceived barriers to entrepreneurship in the survey of South African executives.



Source: Accenture, 2001

4.2.5 Current trends in entrepreneurship within large corporations

From the scanning of literature on trends regarding the use of entrepreneurship, in corporate environments, certain observations are of particular interest (Echols & Neck, 1998; Coulson-Thomas, 1999; Robinson, 2001; Accenture, 2001; Lee & Peterson, 2000):

- No less than 78% of influential Americans believe that entrepreneurialism will be a defined trend in the next century.

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- Many major oil companies have restructured by using the entrepreneurial responsiveness model and are placing primary emphasis on cultural change initiatives and breakthrough teams (Echols & Neck, 1998).
 - Some companies are already being transformed into enterprise colonies that unleash, build, and tap latent entrepreneurial potential within their people. Their boards no longer believe that senior management and the experts who advise them know best (Coulson-Thomas, 1999).
 - The drive to be more innovative is stimulating a renewed appreciation of the value of the intrapreneur, otherwise known as the *in house entrepreneur* (Robinson, 2001). Executives from organisations of varying sizes “...call for a new kind of leadership.... that focuses on.... entrepreneurial behaviour... to give staff the confidence to behave in an entrepreneurial way” (Accenture, 2001:15). Reuters Business Briefings identify 100 articles on entrepreneurship per week and all the major business schools now include entrepreneurship courses in their curricula (Accenture, 2001).
 - Both popular enthusiasm and academic research are increasingly stressing the need to establish a global business climate, whereby entrepreneurship assumes a prominent role (Lee & Peterson, 2000). Large US companies such as Du Pont, Merck, 3M, Wal-Mart and Johnson and Johnson have reputations for providing organisational support to encourage entrepreneurial behaviours of their employees (Echols & Neck, 1998).

These trends are supported by various case studies. For the purpose of this research a few relevant ones have been selected for review.

4.2.5.1 Hindustan Lever Ltd (HLL)

Kamath (in Davis, 1999) gives the example of HLL, which decided to incubate entrepreneurial ventures within a separate setup, and as and when they become large, to move them into one of the other categories. HLL believes that the onus for nurturing entrepreneurship rests on the HR function. In this regard the following was initiated:

- A venture capital cell was set up to support intrapreneurship.
- Through process improvement workshop processes were analysed and redesigned in an effort to ruthlessly eliminate bureaucracy.
- A 360° feedback system was implemented, which was aimed at making people work better in teams and to support each other in a positive way. This also highlighted areas for individual development. A series of enterprise culture awards were instituted.

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- Certain disciplines were combined to drive knowledge sharing.
 - Coaching took place through the immediate supervisor, but professionals were also brought in as mentors.
 - The reward system was redesigned to reward success and not to penalise failure.
 - People with different characteristics were grouped into teams to create a unique mix that could drive entrepreneurship.

4.2.5.2 Koch Industries

Charles Koch, Chairman and CEO of Koch Industries, advocates the economic model of *spontaneous order* as a means of encouraging and enabling entrepreneurial behaviour throughout the organisation. He suggests that success is created by (Koch in Kemelgor, 2002):

- sacrificing control over operational details;
- providing resources instead of giving orders; and
- getting people to think differently – to focus on creating value for customers in a coordinated way.

Koch goes on to state that the best way for a CEO to foster growth in times of rapid change, is to rely upon entrepreneurial flexibility and adaptability, decision-making power located close to the market and putting aside former power in the traditional command and control sense. In this way companies can create a spontaneous order of employee entrepreneurs through a well founded and internally consistent strategy and intellectual framework to interpret and apply the new knowledge that is constantly being produced.

4.2.5.3 Chrysler Corporation

Barrett & Weinstein (1998) views the success of the Chrysler Corporation as the combination of an entrepreneurial management style meshed with an increasingly flexible organisation and improved market orientation. (These views were expressed before the merger with Daimler Benz).

After years of poor management, marketing and manufacturing, the firm faced bankruptcy in the early 1980's. Then Lee Iacocca initiated a campaign to persuade the US government to guarantee a loan programme. After that Chrysler incorporated a number of Toyota's lean management ideas. These included understanding and respect for customer needs, use of teamwork and coordination amongst departments,

acceptance of needed risks and individual empowerment. The Chrysler Corporation therefore had an awareness for a need to manage differently. Chrysler Corporation's share price increased from \$10 in 1991 to over \$70 just before the merger with Daimler Chrysler (Barrett & Weinstein, 1998).

4.2.5.4 Shell

In the 1990's, Shell employed around 100 000 (mainly longstanding) people across 130 nations, and was in danger of becoming bureaucratic and slow moving (Accenture, 2001). Shell needed both to cut cost and to create new engines for growth and innovation. In the challenges Shell was facing, they decided to cut through the existing bureaucracy by engaging members of the front line organisation directly.

Local managers were given the chance to approach business problems in a new entrepreneurial way, with direct coaching and sponsorship from senior executives. The CEO himself reallocated over 50% of his available time to work directly with frontline personnel, fostered many local initiatives in groups and conducted intensive *action labs* and *fishbowl reviews* with local teams.

The approach generated hundreds of many new connections between headquarters and the field. The established part of Corporate Shell initially found the new leadership style very difficult to accept.

4.2.5.5 Sony

Sony has 170 000 employees around the world. Yet, it maintains a small venture capital spirit that can be brought into management through the organisational freedom given to different business units, investment in R&D and encouragement of diversity in styles and backgrounds of management (Accenture, 2001:44).

Sony's success in product innovation, has been largely attributed to the success with which the company has inculcated its *Sony spirit* culture in employees (Chung & Gibbons, 1997). This is partly done through its unorthodox practice of hiring brilliant people with non traditional skills for key positions in management and product development projects.

4.2.5.6 3M

3M has more than 50 000 products and around 4000 profit centres. Under the principle of *grow and divide*, the company encourages small units, born out of innovation and entrepreneurship, to grow into larger divisions and departments.

(Accenture, 2001). Management's commitment to entrepreneurialism is exemplified by a culture and value system which allows employees to spend 15% of their time on alternative projects and the corporate goal of generating 30% of sales from products, less than four years old (Robinson, 2001).

The 3M company achieves organisational intelligence through a culture with powerful anti-bureaucratic elements. One element is a lack of reverence for management. Another is management's ability to trust people. DiSimone & Hatsopoulos (1995) observe that lab people don't see their managers for up to six months at a time, without a formal review.

The company is not without bureaucracy, but its strong tradition of greater respect for doers and innovators than for hierarchy, opens cracks for innovations to move through the system (Pinchot & Pinchot, 1993).

Harnessing the entrepreneurial spirit within the organisation is critical to 3M's success in managing innovation. Intrapreneurial teams are empowered to take a product all the way from conception, commercialisation and beyond to become the management team running a new division (Pinchot & Pinchot, 1993).

4.2.5.7 General Electric

As the CEO of General Electric, Jack Welch instilled a revolutionary sense of intrapreneurship in the company. Once an employee has been given the authority to make decisions and perform to ability, he is allowed the opportunity to become an intrapreneur and innovator (Tichy & Charan, 1989).

Jack Welch aimed to create an enterprise that could tap the benefits of local scale and diversity without the stifling costs of bureaucratic controls and hierarchical authority, and without a managerial focus on personal power and self-perpetuation (Tichy & Charan, 1989). Welch stated that, for a large organisation to be effective, it must be simple. For that to happen, its people must have self-confidence and intellectual self-assurance. Leaders must be simple, clear, uncluttered and tough-minded (Tichy & Charan, 1989).

4.2.5.8 Hewlett Packard

Despite its 84 000 employees world-wide, Hewlett Packard was still able to sustain the entrepreneurial climate, normally associated with smaller companies (Maxon, 1986). This was done by:

- allowing employees to work with minimum supervision;
- keeping working groups small and encouraging decentralisation;
- rewarding successes financially;

- creating an informal but stimulating environment, conducive to creativity and discussion.

Hewlett Packard has become the second largest American computer manufacturer to create an entrepreneurial organisation for constantly leading technological innovation. Hewlett Packard's profits grow at an annual rate of 30% (Entreplexity, 2002).

Entrepreneurial characteristics of the Hewlett Packard organisation include (Entreplexity, 2002):

- **A decentralised structure.** The company's current 96 000 employees are organised into small, global, cross-functional units that never exceed 1500 people. This creates a decentralised structure that is constantly changing and which produces thousands of products.
- **Internal enterprises.** Each unit is an enterprise that *owns its business*. Units plan their own strategy, work with their suppliers and customers, re-invest their profits in the unit, and have their own financial statements. "*Our profit and loss statement is like any other small company's*" (Entreplexity, 2002:4).
- **Internal competition.** Units are accorded almost complete freedom to manage their own affairs as they feel it best, including competing against other Hewlett Packard units and doing business with Hewlett Packard competitors. For instance, the Hewlett Packard laser printer competes with the ink jet printer. One unit chose to buy millions of chips from a competitor because the price was lower than Hewlett Packard's.
- **Internal cooperation.** Units also cooperate when it is useful by offering the benefits of their experience, sharing technology, organising joint ventures, etc.
- **Facilitating leadership.** Corporate executives avoid making operating decisions that intrude on unit autonomy, but focus instead on facilitating cooperative relationships, offering advice, holding units accountable and providing leadership.

4.2.6 Bureaucratic obstacles in the process of creating entrepreneurial organisations

4.2.6.1 Structure

This research is focused on the transformation from a traditional (bureaucratic) organisation to an entrepreneurial unit. The literature shows that the characteristics of these two types are totally different. When attempting change, managers should know what bureaucratic characteristics to consider and to address when implementing entrepreneurship. They should for example understand that (Chisholm, 1987):

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- bureaucracies were created as a highly rational alternative for organisational chaos and inconsistency;
 - rules and regulations were designed to achieve organisational consistency and efficiency;
 - in order to guarantee uniform decisions, regulations multiplied and the original purpose of the decisions got lost in a maize of procedural conformities;
 - since the bureaucracy operates on the basis of rules and regulations, it is biased towards the past and based on precedent and legislation;
 - coordination is achieved by setting narrow confines, minimizing the chance to use a broad range of talents;
 - it therefore appears as if structure and innovation do not mix, unless some way is found to encourage the entrepreneurial spirit and release the potential amongst it's people.

Despite the fact that the structural requirements are known, internal structural problems are identified by 75% of executives as the *primary challenge in creating and sustaining entrepreneurship in large established companies* (Luchsinger & Bagby, 1987; Accenture, 2001). It should be noted that a commonly accepted conclusion amongst managers of established corporations is that the complexity and structure of the modern corporation inhibits innovation and change (Ross, 1987).

Given these structural problems, when attempting to create entrepreneurial companies, more recent thinking stresses the necessity of generating entrepreneurship as an element of corporate strategy – as part of a process of continuous strategic renewal (Chakravarthy & Gargiulo, 1998; Figueroa & Conceicao, 2000; Covin & Miles, 1999; Hewson, 2000).

There seems to be some agreement that organisational variables must be configured in relation to each other, so that significant change in one variable – such as strategy – will be accompanied by change in the others, or the organisation will lack effectiveness or efficiency (Miller & Friesen, 1980). Guth & Ginsberg (1990) see four sets of variables playing a role when fitting corporate entrepreneurship into strategic management: environment influences, qualities of strategic leaders, organisation form / conduct and organisational performance (effectiveness and efficiency).

4.2.6.2 Governance

There is a widely held view that the current corporate governance debate focuses too much on issues of conformance and control, while underscoring the role of strategy and entrepreneurship.

As more procedures, systems and documentation requirements are added over-time, managers are increasingly encouraged to micro manage each and every expenditure, and to establish quantifiable performance benchmarks in as many activity areas as possible.

Control systems therefore tend to evolve in companies and these benchmarks can easily become ends in themselves, while conveying a lack of trust in employees. A related issue with control systems is that of efficiency (doing things right), versus effectiveness (doing the right things). Control systems have historically placed a heavy emphasis on efficiency, sometimes ignoring or even undermining effectiveness issues (Morris, Noel and Schindehutte, 2001). As Pinchot observes, “...*many centralized companies with highly sophisticated control systems are, in fact, out of control*” (Pinchot, in Morris, Noel & Schindehutte, 2001:13).

For this reason there is a potential for the control measures to limit employee initiative and constrain ongoing entrepreneurial behaviour within the venture, especially as the control system itself evolves, become more complex, and infiltrates all aspects of operations (Morris, Noel & Schindehutte, 2001). In a case study performed by Morris & Trotter at AT&T (in Morris, Noel & Schindehutte, 2001), six categories of constraints on corporate entrepreneurship were developed. Some of these were systems and policies and procedures. The authors conclude that flexible control systems, streamlined procedures and short approval cycles are critical requirements for sustained entrepreneurship.

At a more fundamental level, however, it would seem that the entire philosophy of control must change. The control system must become a vehicle for managing uncertainty, promoting risk, tolerance, encouraging focused experimentation, and empowering employees (Noel & Schindehutte, 2001). Enlightened rules eliminate none essential restrictions on employees conduct and enhance the climate for individual innovation (McGinnis & Verney, 1987; Chisholm, 1987).

4.3 Guidelines for designing and managing entrepreneurial organisations

This chapter started with a review of the environmental context and the need for innovation, risk-taking and proactiveness on the part of companies. These characteristics are embodied in entrepreneurship and appears to be the solution for companies seeking ways to maintain and enhance their competitive advantage. In today's turbulent business environment entrepreneurship is not only restricted to the creation of new businesses, but is being established worldwide as forms of corporate entrepreneurship. There appears to be many advantages to the implementation of such a strategic choice, and sufficient evidence exist to substantiate many of these claims.

As the entrepreneurial spirit becomes established in the corporate environment, certain characteristics of entrepreneurial companies become known. To the same degree dissimilarities between traditional, bureaucratic organisations and entrepreneurial companies are better understood. Therefore, changing a traditionally structured company into an entrepreneurial one, requires a particular style of leadership, a clear vision and a well tested process to change successfully from one paradigm to another.

The next section in this chapter reviews several directions for introducing and sustaining the entrepreneurial spirit in a corporate environment. These directions attend to the design of structure, corporate culture, management processes, human resources policies, rewards and systems.

4.3.1 Designing of structures

The structure of an organisation is a primary ingredient necessary for corporate entrepreneurial success. By enacting structures that will foster employees' potential, entrepreneurial potential can be maximized (Echols & Neck, 1998).

Structures which support entrepreneurial behavior should, amongst other things, enable (Echols & Neck, 1998):

- the creation of new organisational forms, either separate from or subsets of other forms;
- a reduction of authoritarianism (relinquishing control to experts instead of basing it on seniority) ;
- a release of energy towards creatively shaping the organisation, while taking calculated risks;
- flexibility, whereby bureaucracy is minimized and adhocracy is maximized;
- teamwork and participative management styles;
- celebration for the process, more than the end result.

These entrepreneurial structures should have performance-driven systems, with an unusually high level of discipline, a clear mission and standards to be supportive (Bartlett and Goshall in Echols & Neck, 1998).

Three specific guidelines should be considered, particularly when designing structures to foster entrepreneurship.

4.3.1.1 Avoid too much structure

Imposing too much structure on the entrepreneur or innovator will mean he has to give up any entrepreneurial ambitions or innovative instincts and has to follow the structural system instead (Maxon, 1986). Heavily integrated, tightly coupled structures do not lend themselves to rapid attuning to environmental changes. Too much focus on structure is therefore a distraction.

4.3.1.2 Maintain a sense of *smallness*

A sense of *smallness* can make it easier for people to show the drive that is essential to entrepreneurial behaviour and for greater collaboration and creativity (Accenture, 2001). Complexity and size could therefore be seen as a threat that could hurt the entrepreneurial spirit. The problem is that corporations want to capitalise on sheer size, but still maintain some of the principles and focus that underpin growth from startup to market leader. (Accenture, 2001).

The challenge, therefore is to create the feel of a small organisation without sacrificing the benefits of size; to get the organisation out of the way and regain the small company soul. Having the soul of a small company in the body of a big one is important if one is to create entrepreneurial thinking within a large organisation. Failure to create the conditions under which smallness might facilitate a more proactive response to uncertainty, may mean that structuring creates only the shell and not the substance (Gibb, 2000). Therefore the challenge to large organisations is to adapt more to the culture, holistic management styles and learning methods of the small business (Gibb, 2000).

4.3.1.3 Establish separate structures

The ability to structurally isolate a set of activities from the rest of the firm's systems, processes and incentive structure, plays a role in determining the success of internal corporate ventures (Pennings & Puranam, 2001). This option offers new venture units the opportunity to carry different policies, rules and measurements that best fit it's objectives and spirit (Drucker in Echols & Neck, 1998). These loosely coupled systems also create a haven of psychological safety in which deviance and experimentation are protected (Heller, 1999).

4.3.2 Corporate culture

A key to the relationship between an entrepreneurial orientation and selected aspects of organisational performance, may reside in corporate culture (Kemolgor, 2002). Corporate culture is often seen as the shared philosophies, ideologies, values,

assumptions, beliefs, expectations, attitudes and norms that knit a group of people together. This is commonly translated to mean *the way things are done around here*. Chisholm (1987:36), cites that the ultimate purpose of entrepreneurship is the advancement of the corporation. Intrapreneurship cannot fulfill this responsibility if restricted to activities, values and thought patterns which conform to the existing culture of the organisation.

There are ways in which a corporate culture can be managed to support entrepreneurship. This includes promoting entrepreneurial behaviour, allowing freedom and autonomy, encouragement from top management and avoidance of bureaucratic barriers. The achievement of this is dependent on strategic leadership, visible in their characteristics, personal values and behaviour. Numerous studies confirm the role of strategic leadership in making entrepreneurship part of strategy (Kanter, 1983; Burgelman, 1983; Guth & Ginsberg, 1990; Kuratko & Welsch, 2001).

4.3.2.1 Understand and accept the uniqueness of entrepreneurial behaviour

Echols & Nick (1998) point to the fact that the behaviours of employees are primary ingredients necessary for corporate entrepreneurial success. Negative perceptions towards entrepreneurial behaviour could have a hugely damaging effect on people who might otherwise act in an entrepreneurial way (Accenture, 2001). Corporate management must be aware of characteristics uniquely associated with entrepreneurship in large companies and should develop an acceptance of these characteristics. Although **intrapreneurs** are likely to possess some competency characteristics of independent entrepreneurs and others characteristics of more traditional managers (Davis, 1999), managers must also be prepared to handle a corporate entrepreneur differently than a traditional manager (Kuratko *et al*, 1993).

4.3.2.2 Promote freedom, autonomy and independence

Entrepreneurship is catalyzed by the independent spirit and freedom to create new ventures, and the dimension of autonomy is a particularly crucial part of an entrepreneurial orientation (Lee & Peterson, 2000). In a survey conducted in 1991 (Brandstatter & Viraelli in Envick & Langford, 2000), 83% of small business owners left corporate jobs because they wanted to be on their own. Entrepreneurs have an inherent desire to be independent.

Many bureaucracies give no autonomy to individuals. Decisions are usually made by few or many, instead of one (Chisholm, 1987).

From a search of literature it appears as if the following managerial actions could ensure freedom, autonomy and independence:

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- **Refrain from too much forced collaboration.** Too much forced collaboration and discussion can suppress individual initiative (Accenture, 2001). Managers should encourage more flexibility by giving greater independence of decision-making.
 - **Give independence to those who earn it.** According to Pinchot (Pinchot & Pinchot, 1978), the corporation must let the employee entrepreneur who has earned his independence, have it.
 - **Ensure availability of budget.** Freedom can be given by allowing a discretionary budget, no time limit on its expenditure and renewed through rewards from past and present innovations (Duncan et al, 1988).
 - **Ensure availability of seed capital.** The Shell Netherlands Business Unit (established in 1985) provides seed capital (start-up or venture capital) to a ceiling value of \$125 000 (A Stimulus to Job Creation, 1997).
 - **Ensure championing of small-scale initiatives.** Large firms will often look for a minimum level of scale in any new development. The best entrepreneurial companies find ways of championing small scale initiatives (Accenture, 2001). Management must be willing to deal with small projects and see them grow incrementally.
 - **Avoid intrusion on unit autonomy.** Corporate executives must avoid making operating decisions that intrude on unit autonomy. They must allow employees to work with minimum supervision and focus instead on facilitating co-operative relationships, offering advice, holding units accountable and providing leadership (Chisholm, 1987; Zaleznik, 1990).
 - **Create a culture of discipline.** Entrepreneurship and discipline go hand in hand. Collins (2001) maintains that such a culture depends upon self-disciplined people who take disciplined actions, in accordance with their understanding of their business focus. Collins (2001) observes the following:
 - A culture of discipline involves a duality. On the one hand, it requires people who adhere to a consistent system; yet, on the other hand, it gives people freedom and responsibility within the framework of that system.
 - A culture of discipline is not only about action. It is about getting disciplined **people** who engage in disciplined **thought** and then take disciplined **action**.
 - A culture of discipline should not be confused with a tyrant who disciplines – one is functional, the other dysfunctional.
-

- The single most important form of discipline is fanatical adherence to the **business focus** and the willingness to shun opportunities that fall outside the business focus.

4.3.2.3 Encouragement of entrepreneurial conduct

Encouraging innovative and risk-taking behaviour by employees in an environment of flexibility and adaptability are the hallmarks of a corporate entrepreneurship culture (Kemolgor, 2002). Organisations can only become entrepreneurial if leaders create a culture where employees can, want, and know how to be entrepreneurial (Accenture, 2001). Therefore to succeed, entrepreneurship requires a large amount of active top management support (Chisholm, 1987). Senior executives must thus be leaders of entrepreneurs, not entrepreneurial leaders (Accenture, 2001).

Members of management should adopt an entrepreneurial behavioural style that transcends the bureaucracy and encourage a climate of innovation; also encourage innovation and entrepreneurship among subordinates (Ross, 1987).

Entrepreneurial conduct can be encouraged by (Ross, 1987):

- valuing entrepreneurship and making known that it “...is for everybody” (Ross, 1987:24);
- communicating the message that business in general and employees personally will benefit if they behave in an entrepreneurial way;
- communicating clearly that reasonable failure will not be punished;
- developing performance management systems and corporate communication programmes to support the entrepreneurial culture; and
- giving middle managers the authority to act as if they were running their own businesses.

4.3.2.4 Avoid bureaucratic barriers

Bureaucratic structures and related behaviour become inappropriate where there is a greater need for self-determination, co-ordination with others and a shift in authority from the hierarchy to the market (Pinchot & Pinchot, 1978). A clash with authority and bureaucracy can be expected where the large and formal organisational structure is at odds with the entrepreneurial mentality (Maxon, 1986). In the Accenture Survey (2001), 75% of senior executives from organisations of more than 500 people, named bureaucratic problems a barrier to entrepreneurial behaviour.

4.3.3 Management processes

According to Barringer & Bluedorn (1999) and Zahra et al (in Kemolgor, 2002), a firm's ability to increase entrepreneurial behaviour is largely determined by the compatibility of its management practices with entrepreneurial ambitions. Managers must be allowed to build an entrepreneurial culture by achieving expected outcomes, by challenging employees to explore new markets and by evaluating innovative schemes in terms of their contribution to strategy (Davis *et al*, in Echols and Neck, 1998). Managers must also know that risk aversion leads to focusing almost exclusively on resource allocation rather than resource attraction.

According to Kuratko *et al* (1993), the adverse impact of a particular traditional management technique can be so destructive that the individuals within an enterprise will tend to avoid corporate entrepreneurial behaviour. It is therefore important for managers to recognise the difference between new and old venture units and historical operating units if corporate entrepreneuring is to flourish. Bureaucrats and controllers must learn to coexist with, or give way to the designer and entrepreneur.

From the existing literature it is possible to formulate a number of guidelines to match management practices with an organisation's entrepreneurial ambitions.

4.3.3.1 Recognise the complementary role of entrepreneurship to management

Clinical evidents suggests that successful entrepreneurial companies such as 3M and Hewlett Packard, exhibit both entrepreneurial and managerial approaches (Birkinshaw, 1997). The entrepreneurial challenge is to move an idea to a commitment of resources; the managerial challenge is to make the resultant business activity profitable. It is however important to recognize that the focus and dispersed approaches are complementary rather than alternatives.

4.3.3.2 Apply enlightened management practices

Companies fostering intrapreneurship are characterised by practicing enlightened management principles (Luchsinger & Bagby, 1987). Higher levels of uncertainty, so common to the current business environment, also call for more flexible innovative, entrepreneurial managerial practices (Davis, 1999). In the Accenture survey (2001) executives called for a new kind of leadership that focuses on entrepreneurial behaviour and which gives staff the confidence to behave in an entrepreneurial way. There is general agreement that a leader influences others towards the attainment of a vision and goals (Zaleznik, 1990; Stoner, 1995). A successful entrepreneur likewise influences those who can help achieve a desired goal or vision. Kuratko and Welsch (2001) reveals that the most common characteristics of both an entrepreneur and a leader are **risk-taking, creativity, achievement motivation, ability to motivate, vision, flexibility and persistence.**

4.3.3.3 Internalisation and drive for efficiency

The trend in organisations to internalize many services and processes and drive for efficiency, appears to absorb a great deal of entrepreneurial human energy, which could well be better used directly in the market place. Internalization directs entrepreneurial energy inwards in the organisation to fight for the size, shape and structure of a department. Energies are then consumed in defending and enhancing specialisation, rewards, status, demarcation, etc. (Pennings & Puranam, 2001).

The drive for efficiency is often also coupled with risk-aversion, resulting in firms focusing almost exclusively on resource allocation rather than resource attraction. This means that the company funds organisational units, which then decide what to do with the money rather than allowing people or teams to seek support for good ideas (Accenture, 2001). Management thus has to find balance between **operational efficiency** and **innovative thinking**.

4.3.4 Human resources policies

Human Resource systems are a powerful link in shaping behaviours and developing a firm's ability to be entrepreneurial. Twomey and Harris (2000) maintain that strategy, human resource management systems, behaviour and organisational outcomes can be aligned around entrepreneurial intent.

Because many traditional management practices turn out to be obstacles to corporate entrepreneurship, early solutions call for creating havens for individuals or small groups by sheltering them and excusing them from the formal rules of the organisation. More recent formulations saw generating entrepreneurship as an element of corporate strategy, and included in it's specialised human resource management systems to support intrapreneurial behaviours and organisational outcomes (Twomey & Harris, 2000). Jack Welsch from General Electric, emphasized that leaders have to find a better fit between the organisation's needs and peoples' capabilities (Tichy & Charan, 1989). Pinchot (in Rosner, 2000:96) argues that probably the most important thing the Human Resources function can do to encourage innovation, is to find people who are going to do something intrapreneurial for the company and then create a safe space for them to work in.

Human Resources Management Systems can therefore align around intrapreneurial intent since these systems are a powerful link in shaping behaviours and developing a firm's ability to be entrepreneurial. It is possible to find several ways to improve the contribution of the Human Resources function to encourage entrepreneurship. Some of these options are briefly reported.

4.3.4.1 Assess the capability

Rosner (2000:96) emphasizes the importance of assessing the quality of people and their entrepreneurial spirit. Every time an investment decision is made, Human Resources should be asking: “*Who wants to do this*” and “*Do they have the entrepreneurial spirit to pull it off?*” If Human Resources practitioners and people in the Human Resources function would accept this challenge, they could enhance their status and role within the organisation, and the ability to evaluate the entrepreneurial spirit could become one of their key tasks.

4.3.4.2 Create career intrapreneurs

It is a concern that intrapreneurs are rarely promoted to positions that match their contributions (Duncan *et al*, 1988). Good intrapreneurs are often promoted to management positions, significantly reducing the likelihood of future innovation in the technical sense of the term. Intrapreneurs rarely have the interest or temperament required for such positions. It is therefore unlikely that the promising or proven intrapreneur will be appropriately rewarded in today’s corporation, as long as career paths do not allow for career intrapreneurs (Duncan *et al*, 1988).

4.3.5 Reward systems

“The organisation which, for sake of an illusionary organisational harmony, declines to adequately reward it’s achievers is doomed to exist in a swamp of mediocrity and perhaps even in a performance downtrend, as high achievers suffer a lack of recognition and reward” (Chisholm, 1987:36).

The creation of viable intrapreneurial attitudes requires sensitivity to the nature of reward systems (Chisholm, 1987). Employee entrepreneurs can often better secure profit and wealth outside the large corporation. This failure to reward entrepreneurial behaviour therefore often causes entrepreneurs to leave the company (Jones & Butler, 1992).

Establishing equitable reward systems to encourage intrapreneurship is a difficult process. According to Jones & Butler (1992), the forces behind intrapreneurship are always in some dynamic balance and only the ability of firms to control the principal relationship and align incentives and rewards to changing conditions, can prevent the entrepreneurial spirit from lapsing into the practice of management.

However, firms are notoriously averse to paying supra normal rewards for supra normal performance to lower level employees because of beliefs that it will destroy the equity of the internal reward structure (Jones & Butler, 1992). It appears as if few corporations really have any concept of how to compensate creative employees

(Duncan *et al*, 1988). Firms therefore need to find ways to recognize individual performance contributions so that they can reward entrepreneurial performance appropriately (Jones & Butler, 1992:20). According to Dennison (in Duncan *et al*, 1988), the normal human being, even if he or she receives increased earnings, will reduce effort if hard work only increases the incomes of *absent* shareholders or owners.

Jones and Butler (1992:738) argue that, while it is difficult to evaluate an entrepreneur's contribution and even more difficult to evaluate any one entrepreneur's contribution in a group or corporate setting, if entrepreneurs are not rewarded for their entrepreneurial efforts in the form of profits rather than salary, they will have less of an incentive to perform entrepreneurially; they will probably reduce their performance and pursue their own interests.

It seems as if top level managers now believe that unique types and combinations of compensation should be used to stimulate entrepreneurial actions and to support implementation of a corporate entrepreneurship strategy (Kuratko *et al*, 2001). Rewards should take the form of short-term or long-term incentives (e.g long-term profit sharing), should be both monetary and non-monetary and should include rewards for intelligent failure (Accenture, 2001). However, entrepreneurs should believe that they are always allowed to expect extrinsic (monetary) as well as intrinsic (recognition) rewards for their performance (Accenture, 2001). Pinchot and Pinchot (1978) predicted that, to become intrapreneurial, an individual must risk something of value to himself (e.g time, having no salary increases until the new business becomes a success, or even a 20% salary decrease, until project bonuses arrive).

Pinchot and Pinchot (1978) suggest that the rewards of success in an entrepreneurial project should be shared between the corporation and the intrapreneur in a well-defined and equitable way. Shared options schemes should include employees at all levels in the firm, not just at the corporate level (Jones and Butler, 1992). Magna International, a Canadian manufacturer of car parts, guarantees employees 10% of pre-tax profits. In 1985, Magna International paid \$8.3m to employees in the form of incentives (Rule & Irwin, 1988:47).

Some argue that entrepreneurs should only be rewarded in the form of profits, rather than salary (Jones and Butler, 1992). A survey of CEO's in Fortune One Thousand Firms revealed that in more than 30% of the firms, managers of new ventures are compensated differently from their counterparts in more established organisations. More than half of the respondents indicated that venture members' incentives should be based on the venture's ROI, and that incentives should be kept between 50% and 200% of an individual's salary (Kuratko *et al*, 2001).

4.3.6 Systems

Information Technology (IT) and Information Systems (IS) governance must always create and preserve business value, not enforce standards (Woodward, 2001). This emphasis is particularly relevant in the context of IT.

It appears as if IS governance is sometimes constraining. If IS governance is merely a mechanism for reining in the wayward, it will become a constraint on business innovation. The challenge presented to business owners is therefore not just to go through a compliance exercise, but also to implement control of IT, while delivering value to the business through the use of technology. Every policy, principle and governance mechanism should derive from that motivation (Woodward, 2001). IT governance must nurture innovation, not constrain it. Real opportunity lies in insuring that the new goal of IS governance is to encourage the submission and discussion of innovative ideas on **cost reduction**, as well as **process, product and service innovation** (Woodward, 2001).

In conclusion one can note that IT management should understand its role in the enterprise and how to adapt that role to meeting business goals. Frameworks for ensuring focus on business value must embrace the contributions that new ideas can make, while ensuring appropriate consideration and management of risk. A system that fails to meet this requirement will fail to contribute to the business value expected.

4.4 Strategy

Organisations seeking to introduce an intrapreneurial strategy also need to identify and focus on a number of internal organisational factors to make the transition successful. A review of research shows that a new organisational form and major change are inevitable considerations if entrepreneurial activity is to prosper. In the change process, people, corporate goals and existing needs all undergo change. The researcher does not propose a specific strategy, but discusses a continuum of entrepreneurial activities that may be considered when developing intrapreneurship, as well as a possible sequence of steps when implementing such a strategy.

According to Kuratko & Welsch (2001), research reveals that the matching factors, when introducing an intrapreneurial strategy, are:

- top management support;
- risk-taking activity;
- organisational structure;
- rewards; and
- resource availability.

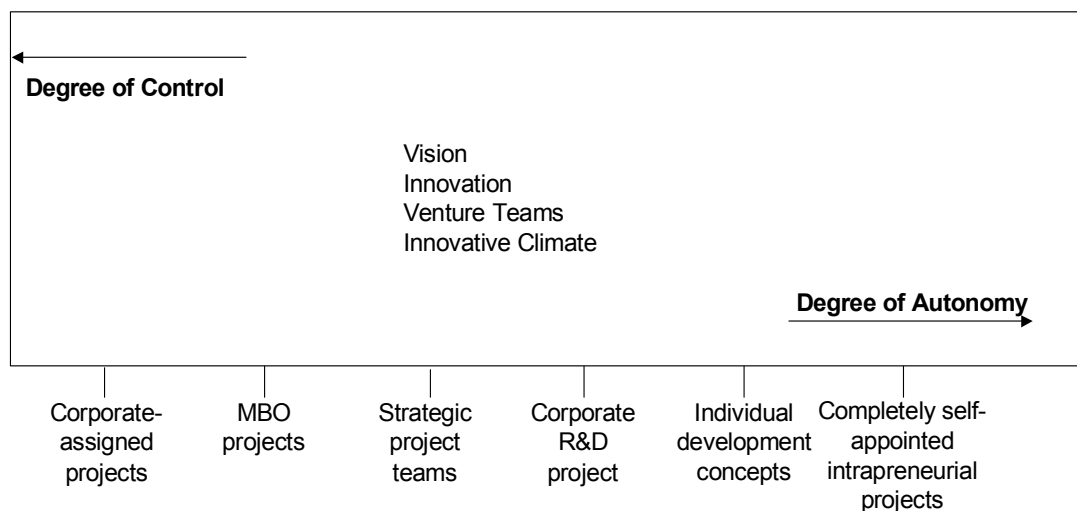
These factors are also aligned with critical steps or activities to be followed when introducing an intrapreneurial strategy.

4.4.1 A continuum of intrapreneurial activities

It appears as if the major elements of an intrapreneurial strategy point to a proactive change in the existing corporate status quo that leads to a newer, more flexible organisation (Kuratko and Welsch, 2001). It must be appreciated that an entrepreneurial strategy cannot be affected all at once. A change process is involved, which means that it has to proceed through a progression of activities. These activities are depicted as a continuum in Figure 4.2 (Kuratko & Welsch, 2001).

Figure 4.2

The Intrapreneuring-venturing continuum



Source: Kuratko & Welsch, 2001

Figure 4.2 first presents ventures that may be considered corporate-assigned projects, which are characterised by a great deal of corporate control and commitment. Then it progresses through management by objectives (MBO) strategic projects, and corporate R&D projects, all of which feature increased individual autonomy and decreased corporate control (Kuratko & Welsch, 2001).

The degree of project control and corporate commitment pushes certain projects toward greater corporate control and, therefore, alignment and supervision. Other projects will be pushed towards the ideal of intrapreneurship because of the need for autonomy and freedom to run a project. These efforts will manifest itself in completely self-appointed champions of new venture developments (Kuratko & Welsch, 2001).

Kuratko & Welsch (2001) cite that entrepreneurship is a risk, but it has to start somewhere, even if it starts small and is kept under corporate control. These authors maintain that, once initiated, there is a good chance that this effort will progress through the steps of the continuum. It appears as if, over time, people tend to become more comfortable with the idea, build confidence through the results, soon to manifest in more autonomous ventures that involve innovative abilities of all team members.

4.4.2 Possible steps in creating the entrepreneurial company

It has already been stated that various forms of intrapreneurial activity can exist within organisations. These circumstances will obviously be influenced by the business environment, leadership, the current organisation form and the organisation's performance, amongst others. Yet the necessity of a change process, which involves a number of phases or steps and which is strategy-driven, cannot be avoided. Kuratko et al (1993) proposes a sequence of such steps (in broad terms) to be followed when creating an entrepreneurial company:

- Step 1: Assess current strategies for entrepreneurial activity.
- Step 2: Assess the current organisational situation.
- Step 3: Determine whether there is an understanding of the innovation that management wants to achieve.
- Step 4: Identify specific objectives for corporate entrepreneuring strategies and the programmes needed to achieve them.
- Step 5: Make sure that the current system, structures and practices do not present insurmountable roadblocks to the flexibility and fast action needed for innovation.
- Step 6: Provide the incentives and tools for entrepreneurial projects.
- Step 7: Seek synergies across business areas.
- Step 8: Orientate managers so that they understand entrepreneurial thinking by employees.
- Step 9: Introduce and entrench an entrepreneurial climate.

- Step 10: Control and evaluate corporate entrepreneurship.
- Step 11: Encourage, not mandate, entrepreneurial activity through rewards and recognition.
- Step 12: Provide proper exposure of the human resources through selected rotation.
- Step 13: Entrench the principle that management must sustain commitment to entrepreneurial projects long enough for momentum to occur.
- Step 14: Introduce a people value (not analysis), and reinforce the concept of relying on people as the major managerial requirement if corporate entrepreneurship is to prosper.

Strategies developed to entrench intrapreneurship are aimed at a revitalization of innovation, creativity and a new way of managing a company. When managed successfully it has the potential to boost the future productivity of organisations, thus helping them to meet the challenges of the 21st century.