

# SUPPORTING ENTREPRENEURIAL BEHAVIOR AND INNOVATION IN ORGANIZATIONS

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This is a conceptual paper that focuses on the existence and support of entrepreneurial behavior and innovation in larger organizations. It first suggests why it is important to pay attention to entrepreneurship and innovation and then defines corporate entrepreneurship. Typical barriers of entrepreneurial activities are described as well as innovation dilemmas that organizations solve. The innovation process is not linear, but six components of innovative behavior may be identified, together with specific roles employees play when moving the idea forward from idea creation to implementation. Important factors influencing the success of entrepreneurial behavior are discussed, involving the role of middle managers and reward systems. Recommendations for fostering entrepreneurial behavior and innovation are provided together with a simple inventory for measuring employee perception of managerial and organizational support for innovation.

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## Introduction

The global economy is creating profound and rapid changes for organizations and industries all over the world. The answer to today's fast-changing and competitive environments is adaptability, flexibility, risk taking, proactivity, competitive aggressiveness and innovativeness – in one word: entrepreneurship (Morris and Kuratko, 2002). However, entrepreneurship does not necessarily mean only independent activity, it involves also entrepreneurial activities conducted in larger organizations (e.g., Stevenson and Jarillo, 1990). The challenge for today's organizations is to achieve competitive advantage that must be further recreated through the initiation and implementation of new ideas. Many Czech firms complain that it is not possible to export products to China without having these products copied by the Chinese. On the other hand, there are other firms that claim that this violation of intellectual property is also helping them because they had to learn to innovate permanently in order to stay on the top.

Radical innovations help firms to achieve a temporary monopoly on the particular market, or at least to substantially increase their market share. Nokia profited for many years from an innovative advantage, being replaced by a better innovating Apple. Examples of achieving substantial market share can be given also for the Czech Republic, e.g. recent cases like bus transportation with Student Agency or buying

vouchers using Slevomat. Finally, highly innovative firms such as Apple, Google, 3M or Toyota achieve a premium on their stock prices.

It must be noted that radical innovations are not the only ones that matter. Only a tiny percentage of companies are successful in launching a truly groundbreaking innovation.

The effective management of small ideas is what matters most. Small ideas, when implemented in large numbers, can create long-term advantage. Moreover, such an advantage cannot be easily copied (Robinson and Schroeder, 2006).

Historically, focus was laid on new product development and new technologies. Innovations to improve products are, however, often expensive and time-consuming, and they require considerable upfront investment with uncertain future returns (Amit, Zott, 2012). For many companies, heavy investments in product innovations did not bring expected results. There is a visible shift today towards service innovation (Chesbrough, 2011), management innovation (Havlíček, 2011) and especially business model innovation (Amit, Zott, 2012). Novel ideas can change any part of the value chain (Birkinshaw, Bouquet, Barsoux, 2011).

## Defining corporate entrepreneurship

The term corporate entrepreneurship is used to describe entrepreneurial behavior inside established medium-sized and large organizations. It embodies entrepreneurial efforts

that require organizational resources for the purpose of carrying out innovative activities in the form of product, service, process, or business model (Sathe, 2003).

Entrepreneurship inside organizations can have various forms. We can distinguish between strategic renewal, external and internal corporate venturing (Sharma and Chrisman, 1999). Strategic renewal relates to entrepreneurial efforts inside organizations, which result in substantial changes in a business model, strategy or structure of the organization. A good example is Nokia, which was established in 1865 and moved from producing paper to tires and gum-boots and then to mobile phones. External corporate venturing describes entrepreneurial efforts leading to creation of a new firm. It is often connected to the exploitation of new markets, offer of new products or both. The output is the existence of partially, or fully, autonomous units operating outside the existing organization, e.g. joint ventures or spin-offs. One of the most successful spin-offs is Google, which earned more than 330 million USD for Stanford University. Internal corporate venturing is focused on the creation of organizational entities operating inside the existing organization, e.g., new departments, divisions or cross-functional teams.

Ireland, Covin and Kuratko (2009) emphasized the importance of corporate entrepreneurship strategy which firms should create. They developed a corporate entrepreneurship strategy model, the components of which are (1) the antecedents of corporate entrepreneurship strategy (i.e., individual cognitions of the conditions that support entrepreneurial activity), (2) its elements (i.e., top management's entrepreneurial vision, organizational architecture encouraging entrepreneurship), and (3) organizational outcomes resulting from entrepreneurial actions. Corporate entrepreneurship strategy can be then defined as „a vision-directed, organization-wide reliance on entrepreneurial behavior that purposefully and continuously rejuvenates the organization and shapes the scope of its operations through the recognition and exploitation of entrepreneurial opportunity“ (p.21).

### **Corporate and independent entrepreneurs**

The famous definition of entrepreneurship as the pursuit of opportunities without regard to resources currently controlled (Stevenson and Jarillo, 1990) applies both to corporate and independent entrepreneurship. Both involve opportunity recognition and require a unique idea that takes the form of a new product, service, or process. Similarly, both find the entrepreneur encountering resistance and obstacles, necessitating perseverance, the ability to formulate innovative solutions and develop creative strategies for leveraging resources. Both involve significant ambiguity, and require risk-management strategies and the ability of the

entrepreneur to balance vision with managerial skill, passion with pragmatism, and proactivity with patience. On the other hand, there are differences as well.

Corporate entrepreneurs bear lower risks, usually do not own the concept or own just a small part; rewards for them have clear limits. A large company provides more room for errors and protects the individual, i.e. as it is not so vulnerable to external influences. Also, it provides an extensive network for bouncing around ideas and access to different resources enabling quick business growth. On the other hand, there is a high interdependence of corporate entrepreneurs with many others, with company rules, procedures and bureaucracy that make decisions rather slow (Morris and Kuratko, 2002).

### **Barriers to corporate entrepreneurship**

Organizations create standardized rules and procedures that enable them to increase efficiency in the key areas of their business. They engage in long-term planning, manage effective utilization of resources, and judge future steps on the basis of past experience. Power relations and alliances also develop inside organizations, and employees with conforming behavior are often promoted. Time also brings lethargy, which lowers the tendency to leave the comfort zone and try new things. All these issues result in the creation of strategic, systemic, behavioral and political barriers (Lumpkin, 2007; Morris and Kuratko, 2002).

Strategic barriers are caused by the absence of innovation goals. Company vision may be lacking, or blurred, or strategy may prefer non-innovation areas. Even in a situation in which the importance of entrepreneurial orientation is declared, the effort may be in vain because effective top management support does not exist. Google can be given as an example of a company that successfully fights against such strategic barriers. Google lets its engineers spend one day per week on their own projects. This practice has delivered some of Google's newer services, such as Gmail, Google News, Orkut, and AdSense. In fact, Google declared that 50% of new product launches have originated from the 20% of innovation time off. A detailed case about what Google does in order to support corporate entrepreneurship is described by Finkle (2012).

Systemic barriers are the consequence of formal managerial systems of established firms developed over the years with the goal of bringing efficiency and stability to a complex business environment. Specific examples of systemic barriers involve bureaucratic routine reporting, rewarding compliance instead of new ideas, or inflexible budgeting. Hierarchical levels slow down the information flow, especially in the bottom up direction. Information is then missing for quick and efficient decision making.

Behavioral barriers may be connected to functional blindness. Managers and specialists often perceive organizational reality through the prism of their own function. Financial managers focus on reducing costs, whereas marketing managers want great marketing campaigns to attract customers. Such biases in understanding of a complex situation often arise with the appearance of situations or demands that are new and require a quick decision. Employees can also have low self-efficacy, perceive a lack of time or necessary skills or be afraid of losing their jobs.

Political barriers are caused by power relations and the issues of control and authority within an organization. For instance, a manager who has invested a lot of work and effort in his/her current project will, naturally, be reluctant to support a new project started by someone else. The fear that his/her project might be put aside can lead to withholding information and keeping resources inside his/her own project. The potential success of a new project always leads to a change in the power structure of the organization, which presents a possible threat to higher-ranking managers. Another difficult question is, "Who will lead the new entrepreneurial project?" A higher-ranking manager may want to become a project head in order to get acknowledgement for the success of a new project that starts promisingly.

### **Innovation dilemmas**

Even when innovation barriers are low, it is not easy to manage new innovative activities. The difficulty lies in the fact that the results of innovation efforts are uncertain and require a lot of time and financial resources. The innovation process is long, and non-linear (van de Ven et al., 1999), requiring multiple decisions by different people and its success cannot be guaranteed. Sharma (1999) identified several innovation dilemmas that organizations face when managing innovations.

**Seeds versus weeds** – Firms must find mechanisms to select the right innovation projects before they invest a substantial amount of money into unsuccessful innovations.

**Experience versus initiative** – Organizations must decide whether projects will be led by experienced, but more risk-averse managers, or by younger employees with less experience, but greater enthusiasm and drive.

**Internal versus external staffing** – Organizations can hire either current employees who have more contacts inside the organization, and know how it functions or new people from external sources who are able to think outside the organizational box and bring new knowledge. Such external hiring can, however, worsen relationships inside the organization.

**Building capabilities versus collaborating** – Organizations may try to develop new skills internally (which costs time

and money, but keeps knowledge at home), or acquire them through business partnerships.

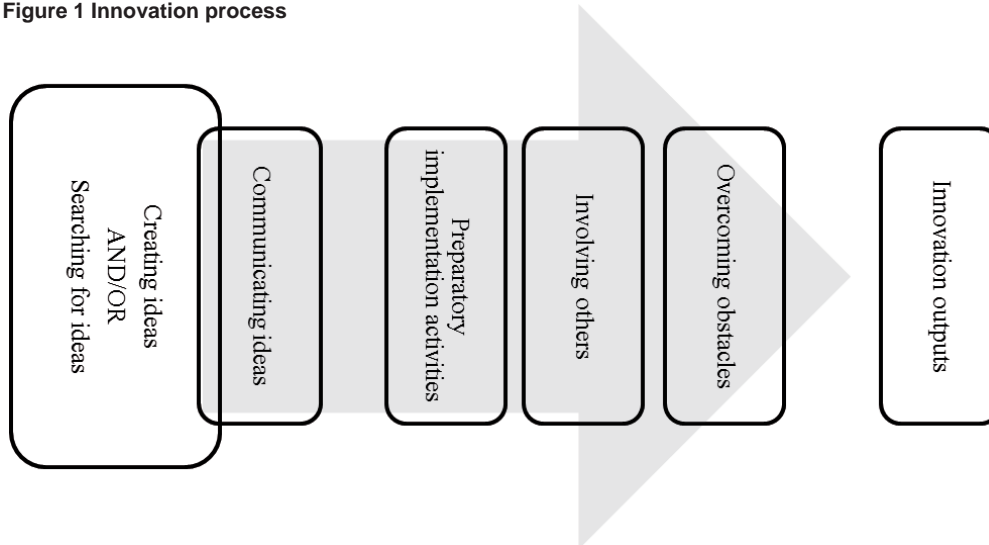
**Incremental vs. preemptive launch** – An incremental launch is less risky, because it requires fewer resources and can serve as a market test. On the other hand, the competition learns more quickly about company innovations, and thus it is less probable that a temporary monopoly will be achieved. One more dilemma relates to finding a balance between exploration and exploitation. Exploration is connected with a complex search process, risk taking and experimenting with new knowledge and technology. On the other hand, exploitation relates to systematic search, risk aversion and improving existing capabilities. Having goals in both areas is important for success (Lumpkin, 2007). Organizations should define a scope of innovation efforts that provides a direction for employees. The dilemmas and barriers suggest that corporate entrepreneurship is difficult even in successful firms.

### **Innovation process in organizations**

Stage models are often used to outline the pathway from idea generation to final innovation results. For instance, Damanpour and Schneider (2006) divided the innovation process into various initiation, adoption and implementation phases. But there are also numerous decisive tasks performed by many people involved in innovation over time. The innovation process can stop at any stage or return to a previous stage; it can be modified, new players can enter and initiators can leave. Detailed plans on idea implementation need to concur with the flexibility to change the implementation activities if unexpected events arise (Bledow et al., 2009). Also, depending on what the focus of the innovation is, the innovation process may be differentially complex.

Nevertheless, the main components can be found in each process, and a description of these components can help organizations to pinpoint the strengths and weaknesses of their employees' innovation capabilities. Most innovation efforts fail not because of a lack of clever ideas, but because of a lack of good follow-up. There is a long process from the idea to its implementation, and latter stages of the process are usually the most time consuming. For instance, IBM's 2006 online Innovation Jam where Internet users suggested over a 72-hour period 30 000 ideas required a team of 60 researchers to sort them through (Birkinshaw, Bouquet, Barsoux, 2011). Companies should therefore know where the weakest links in their innovation process are, and invest time and resources in correcting those weaknesses.

Three main stages of the innovation process can be distinguished, i.e. initiation, decision, and implementation (see Figure 1).

**Figure 1 Innovation process**

The first stage is initiation. It consists of two components that are the creation and/or search of new ideas. Traditionally, researchers connected this phase to the creativity of an individual, and the different factors influencing it (e.g., Hunter, Bedell & Mumford, 2007). The trigger of an innovative activity can lie in the individual himself/herself, e.g., in intrinsic motivation and personal initiative (Frese and Fay, 2001), or in the organizational environment that can be influenced by management (e.g., Bledow et al., 2009). The individual can come up with an idea due to his/her own creative invention (the first component), and/or due to the search for a good idea in his/her environment (the second component) that requires a search for various sources of knowledge as well as exploring opportunities. Alertness is the key, i.e. alertness to details, changes or „exceptions“ when things do not go as expected.

However, innovation needs more than creativity, it needs implementation. When an employee already has a new idea, he/she must decide whether it is worth taking the initiative towards implementation (Frese and Fay, 2001). In particular, employees in organizations will not be able to implement ideas on their own, and often have to receive permission to do so from their managers. Thus, the next step in the innovation process is to communicate the idea to the manager or to submit it to the continuous improvement system, when such exists (the third component). At this moment, the second stage starts.

For the first time, the idea is externally evaluated, and either rejected or accepted by a responsible manager or specialist. For some ideas, especially ideas requiring a considerable amount of resources, a feasibility analysis may be required. When the managerial decision is positive, further resources (time, money, people, etc.) are allocated

for the implementation, which constitutes the third phase. The implementation stage starts with the selection of an innovation champion. It is either the initiator who came up with the idea as is often the case with simple ideas (Howell, Shea and Higgins, 2005), or another employee perceived as more suitable by management in the case of difficult implementation (e.g., Lukeš et al., 2009). Even in that case, the initiator is often involved in the implementation team.

The innovation champion starts with implementation activities (the fourth component) – prepares plans for implementation, anticipates problems and deals with them proactively, often by using new procedures in a self-starting sense. The champion further acquires resources (e.g., Scott and Bruce, 1994), launches the project and involves other key people in the implementation (the fifth component). He, or she, communicates a vision of what the innovation could be, or do, and displays enthusiasm and confidence about it (Howell, Shea and Higgins, 2005). Essential activities in this phase are monitoring project development, making necessary changes, and overcoming obstacles together with the implementation team (the sixth component). The champion must be persistent in order to overcome barriers and resistance (Frese and Fay, 2001; Howell, Shea and Higgins, 2005) until the final version of a product, service, process or business model is ready, and innovation outputs are achieved.

### **The role of individuals in corporate entrepreneurship**

Individual employees can play various roles in the process of corporate entrepreneurship (Morris and Kuratko, 2002). In the previous text, the roles of initiator and champion have been described. But there is one more important role

– a sponsor. The sponsor is usually a high-ranking manager who functions as the advocate of entrepreneurial activity. The sponsor's role lies in advising the champion, helping to find resources and information, supporting an innovative project with personal authority, and to function also as a protecting buffer when the champion must go against some company rule in order to overcome a barrier and proceed with the innovation. Therefore, the selection of the right sponsor(s) is of utmost importance.

The opposing role is the devil's advocate, whose role is to objectively criticize new projects, focus on weaknesses, and ask for clear unemotional explanations. Such a person must be tough as the basic role is to save money for the organization. The role is often played by financial managers, or by heads of competence centers (Lukeš et al., 2009). For this role, personal maturity is important, because the devil's advocate should criticize the factual weaknesses of the project and not fight with the champion just because of his/her own ego.

Finally, especially for more complex innovations, the champion cannot implement the idea alone. A motivated team with various experience and team roles is needed to develop the idea.

### **The role of middle managers**

Management support refers to the willingness of managers to facilitate and promote entrepreneurial activity in the organization (Kuratko, et al., 2005). This support may take many forms, including the championing of innovative ideas, providing the necessary resources or expertise. Managers immediately control and evaluate the work of their subordinates, broaden or limit their access to resources and information, clarify goals and roles of individual employees, consult their ideas and influence their work by many other means. Managers play three important roles in relation to idea support (Robinson and Schroeder, 2006). They create the environment that supports creation and communication of ideas. They also help employees develop their knowledge and problem solving skills in order to increase the quality and effect of submitted ideas. An idea that is submitted, but is not good, means the opportunity for a manager to explain to the employee what should be taken into account in order to make the idea more useful. Finally, managers also sell good ideas to higher level managers and explore broader possibilities for using particular ideas in the whole company.

Previous research showed that perceived managerial support influences employee creativity (Amabile et al., 2004). Scott and Bruce (1994) confirmed the positive role of leader member exchange for supporting innovative behavior. In a similar way, Kuratko, et al. (2005) found

that as the entrepreneurial behavior of managers increased, subordinates' satisfaction with supervision increased as well. Finally, Lukeš, Stephan and Černíková (2009) proved the mediating role of perceived managerial support for supporting innovations in an organization. In other words, even if the organization supports innovation, this support does not function well when the support from middle managers is missing. Therefore, support of innovations at the middle management level should obtain attention from top management.

### **Organizational climate and innovation behavior**

Many research studies have focused on organizational climate and its influence on creativity and innovation (Baer and Frese, 2003). Organizational support involves availability of resources for new ideas implementation, support of discussion about new ideas, top-management support and the use of rewards for good ideas (Hunter, Bedell and Mumford, 2007). Other drivers of innovation include shared understanding, diversity, interaction, safety to experiment, and training and techniques to innovate available for employees (Birkinshaw, Bouquet, Barsoux, 2011). The perception of organizational support, i.e. how employees perceive organizational rules and procedures, influences innovative behavior (Baer and Frese, 2003). An organizational environment supportive of innovation tends to have strong antecedents of entrepreneurial activities (Hornsby, Kuratko and Zahra, 2002).

### **Simple measurement of employee perception of innovation support in the organization**

Both managers and researchers can utilize the Innovation Support Inventory (Lukeš, Stephan and Černíková, 2009) for a quick measurement of a manager's support and organizational support for innovation. Employees answer on a Likert-type scale from 1 (fully agree) to 5 (fully disagree) regarding how well the statement describes the current situation. The statements for managerial support are as follows: „My manager motivates me to come to him/her with new ideas.“, „My manager always financially rewards good ideas.“, „My manager supports me in implementing good ideas as soon as possible.“, My manager is tolerant of mistakes and errors during the implementation of something new.“ and „My manager is able to obtain support for my proposal also outside our department.“ The mean from these five statements can be compared with the average result obtained from 443 employees of international companies operating in the Czech Republic that was 2.37 (Lukeš et al., 2009). Results lower than this value indicate better perception of managerial support when compared with survey participants.

The statements for organizational support are „The way of remuneration in our organization motivates employees to suggest new things and procedures.“, „Our organization has set aside sufficient resources to support the implementation of new ideas.“ and „Our organization provides employees time for putting ideas and innovations into practice.“ The mean from these three statements can be again compared with the average result obtained from 443 employees of international companies operating in the Czech Republic that was 3.25 (Lukeš et al., 2009). Results lower than this value indicate better perception of organizational support for innovation when compared with survey participants. Both managerial support and organizational support scales show good reliability, convergent and discriminant validity (Lukeš, Stephan, Černíková, 2009).

### Recommendations that foster entrepreneurial activities

Sixteen recommendations for companies willing to foster their entrepreneurial activities can be formulated (Lukeš et al., 2009; Robinson, Schroeder, 2006):

1. Innovation is emphasized in the firm's mission, values, goals and management presentations.
2. Bottom-up and top-down innovations should be combined – bottom-up innovations benefit from employee engagement, top-down from better alignment with a firm's goals.
3. Internal communication covers all employees, but also emphasizes the role of managers, employees in direct contact with customers, and specialists developing new products and services.
4. Managers are trained and motivated to support innovative ideas – line employees perceive organizational support through the support from their direct superior.
5. Ideas are supported and welcome – managers are open to suggested ideas and employees believe it is really so.
6. Clear, simple and comprehensible processes are set so that all employees know how to proceed with a new idea – many continuous improvement systems are complicated, because they are ready for radical innovations. However, it can limit suggesting many good, but smaller improvement ideas.
7. Idea evaluation is quick and effective – ideas are mostly evaluated on lower levels.
8. Feedback is fast, constructive and informative – employees know that somebody dealt with their ideas and their learning is supported thanks to good feedback.
9. Implementation is smooth and swift – the effects come then sooner. Resources should be available for quick implementation.
10. Ideas are analyzed with a possible broader utilization on mind – it makes the system highly effective, when the organization recognizes big topics out of small ideas.
11. People are valued for good ideas by public recognition and quick idea implementation.
12. The system of continuous improvement is measured, evaluated and improved.
13. Communication is flexible due to cross-functional teams, effective information exchange, autonomous business units and information sharing with business partners.
14. Performance appraisal is focused rather on long-term goals, combines individual and team results and tolerates possible mistakes. For managers, the innovative activity of their team is an explicit goal and is part of their performance appraisal.
15. There are specific entrepreneurial criteria used for staff selection as well as for staff development and training. Schmelter et al. (2010) study provided empirical evidence for the strong impact of those criteria application on corporate entrepreneurship.
16. Firms should utilize new ideas coming not only from inside, but also from outside (Chesbrough, 2003). The goal is not to accumulate patents, but to innovate fast and cheap and spread the use of a firm's products and services. Firms like Apple, Procter & Gamble or Microsoft get and implement effectively ideas from people who are not their employees. Firms should work closely with customers to develop new solutions, focus on utility rather than on the product itself and embed themselves in their customers' organization (Chesbrough, 2011). However, one must bear in mind that open innovation is not the best tool for everything. External forums reach to a broad range of expertise that makes them effective for solving narrow technological problems, but internal innovation forums have more understanding of context (Birkinshaw, Bouquet, Barsoux, 2011).

### Rewards for entrepreneurial activity

One of the difficult questions is how to set up effective rewards systems for innovative and entrepreneurial activity. Opinions differ, ranging from substantial financial rewards to purely non-monetary appreciation. Two studies within the Central European context have confirmed a significant influence of entrepreneurial activity related staff rewards on corporate entrepreneurship (Lukeš et al., 2009; Schmelter et al., 2010). On the other hand, some scholars rather warn against using stronger financial

stimuli and argue that the main reward for an individual is the process of innovating itself and the fact that the idea is implemented (Birkinshaw, Bouquet, Barsoux, 2011; Robinson, Schroeder, 2006).

Therefore, the issue of rewards will be discussed in more detail. Morris and Kuratko (2002) present a model of motivation of entrepreneurial employee behavior where motivation for employee entrepreneurial behavior is a function of expectation that the effort devoted to entrepreneurial activities will lead to positive evaluation and related rewards. The rewards can have different forms based on individual preferences. Firms use innovative approaches to reward entrepreneurial behavior. An employee can bet a part of his/her salary and then either lose it or multiply it based on innovation results. Small financial rewards for suggesting a meaningful idea are frequently used, as well as firm stocks, „frequent innovator“ programs or percentages from new sales and new savings incurred by implementing a new idea.

Rewarding ideas has, however, its specific risks. The first is when rewards are given just for ideas and not for their implementation. Then the motivation of people involved in the implementation decreases (Robinson, Schroeder, 2006). Why should they try to introduce the idea of somebody else when they get rewarded only for their own idea? The second risk is that potentially high rewards based on percentages from savings or sales may lead to unethical employee behavior. Ideas may be stolen and interpersonal relations may worsen. Finally, employees may prefer just such ideas that are easily quantifiable. Some great ideas are then not suggested, because it would be practically impossible to count the exact savings.

In order to be functional, the system should put higher emphasis on success than on failure, to provide public recognition and do it fast, be based on clear criteria, and take into account employee preferences. The individual should receive, especially in the Czech environment, at least some personal reward for idea suggestion, but the bigger share of the reward should be based on aggregated team measures and take into account not only idea suggestion, but also implementation. Biniari (2012) explored the emergence of envy toward venturing programs' members and concluded that entrepreneurial programs lacking sufficient levels of social embeddedness fail to survive in the corporate context. Group based rewards support team spirit and create the climate in which individuals and teams cooperate and help each other with new ideas. Reward systems must support company goals, be fair and understandable, relate with performance and expected behavior and support creativity and personal initiative. Then, they can be highly motivated.

## Conclusion

There are big needs today for the effective support of entrepreneurial behavior and innovation, but the task is not easy. Barriers and difficult dilemmas complicate the innovation process. Company management can, however, start to change organizational culture in the direction of innovations and set up systems that encourage employees to behave in a more entrepreneurial manner. The paper provides recommendations that foster entrepreneurial activity.

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