

THE LIKELIHOOD OF CORPORATE ENTREPRENEURSHIP IN LARGE CORPORATIONS

Lok Tak Ming, Jafy

DBA, De La Salle University, Philippines

MBA, University of Hong Kong, Hong Kong

DMS, Hong Kong Polytechnic University, Hong Kong

FCCA, ACMA, AHKICPA, ACIS, ACIB, FCPAS, ACAEW, CIA, CGMA

Associate, Institute of Corporate Directors, Philippines

ABSTRACT

Entrepreneurship becomes more important nowadays in the strategic management process, in particular, in the company's ability to increase profitability over time. From the view of entrepreneurship, entrepreneurs notice opportunities from where they act and create new hierarchies or ventures to organize transactions. If the entrepreneur happens to be the firm's manager and when the management function is distinguished from the entrepreneurial function, agency problems arise in the new hierarchy. The firm's manager could act against corporate entrepreneurship if he decides to explore the innovation concept for his own benefits to setup his own business. This paper sought to explore the feasibility of corporate entrepreneurship in large corporations under the consideration of conflict of interest, the characteristics of the manager, and the moral consideration of the manager. This is an explanatory research which used three case studies through semi-structured interviews. The results of the three case studies and the cross cases analysis support the existence of the conflict of interest in determining whether to explore the innovation concept for the corporation or his own benefits. It also confirms the importance of the characteristics of the manager and the moral consideration of the manager in the decision-making process on how to explore the innovation concept. All the cases confirmed that the likelihood of corporate entrepreneurship in large corporations is low as the manager is likely to explore the innovation concept for his own benefits.

Keywords: Entrepreneurship, opportunities, agency problems, corporate entrepreneurship, conflict of interest, characteristics of manager, moral consideration, innovation concept.

1. INTRODUCTION

Recent research shows that entrepreneurship is taking on an increasingly important role in the strategic management process. Corporate growth and development, as well as the company's ability to increase profitability over time, have increasingly relied on the entrepreneurship function for many a year (Jones & Butler, 1992) [4]. From the view of entrepreneurship, entrepreneurs notice opportunities, act, and create new hierarchies or ventures to organize transactions. If successful, they reap the profit from their actions. However, if the entrepreneur happens to be the firm's manager, when the management function is distinguished from the entrepreneurial function, agency problem arises in the new hierarchy. In general, the manager has two choices. If the manager decides to share the innovation concept with his senior management of the company and the company continues to develop the innovation concept, it would be a typical

Tel.: +63-917-5077606

E-mail address: jafylok@yahoo.com

case of corporate entrepreneurship. However, if the firm's manager decides to keep the innovation concept to himself and to develop the innovation concept for his own benefits, he would become an individual entrepreneurship.

For innovation, it is the new combinations of capabilities and market needs (Schumpeter, 1934) [10]. All the concepts on corporate culture, human capital, and social capital are valid in the field of corporate entrepreneurship while innovation is the fundamental element of entrepreneurship. Innovation could exist in a large corporation in different forms, such as new product, new services, new market, or new business. Either one of the form could be treated by the employee as company assets or as personal ideas.

For the concept of principal-agency relationship (Kerr & Werther (2008) [5], Arrow (1985) [2], Spremann (1987) [13], Eisendhart (1989) [3], Maskin & Tirole (1990) [6], Adams (1994) [1], Waterman & Meier (1998) [14], Rosenow (2002) [8]), it emanates from a division of labor where one party (the principal) delegates decision-making authority or control over resources to another (the agent). Risk preferences account for the agency problem in the entrepreneurial context because the principal and the agent have different risk preferences. The reward of the principal is the entrepreneurial profit for undertaking uncertainty; the reward of the agent is the salary for normal risk-taking. Thus, given this reward structure, agents have no incentive to be entrepreneurial, other things being equal. The agents will prefer a low level of risk to keep them employed. This misalignment of the interests of principals or entrepreneurs and agents or managers results in a loss in a company's entrepreneurial ability (Jones & Butler, 1992) [4].

For a large corporation, the situation of principals and agents would be obvious as the function of entrepreneurship has become separate from the management. Any entrepreneurial spirit of the manager or employee could conflict with his personal interest as the agent. Furthermore, with the imbalance of the reward system, the manager or employee could decide to develop the entrepreneurial idea outside the corporation for a higher return than the salary. It would be interesting to look into the factors that lead a manager or employee to explore the entrepreneurial opportunity within the corporation or outside it.

Apparently, the characteristics of the manager and the moral consideration of the management could impact the manager on his decision-making process on how to explore the entrepreneurial opportunity. Shane (2003) [11] suggested the non-psychological and psychological factors which affect the characteristics of the entrepreneur. Furthermore, studying ethics in entrepreneurial setting may offer more clarity regarding ethical issues, such as a potential explanation for the differences observed in the levels of cognitive moral development (CMD) between entrepreneurs and others. As per Solymossy & Masters, 2002, [12], the individual level of cognitive moral development should influence ethical behaviors with higher levels of cognitive moral development should behave more ethically. Also, the findings that membership in hierarchical firms may actually retard moral development.

With the possible existence of conflict of interest in the principal-agent relationship, this paper sought to explore the feasibility of corporate entrepreneurship in a large corporation. From the vantage point of decision-making, specifically on how to explore the entrepreneurial opportunity, this paper explored the possible relationship between the likelihood of corporate entrepreneurship and the characteristics of the manager, as well as his moral consideration.

Being the key statement of the issue, this paper explored the likelihood of corporate entrepreneurship existing in the large corporation. By reviewing the literature and analyzing the results from the structured interviews, this paper sought the following:

- 1) To identify the existence of conflict of interest in the decision making process of how to develop the innovation concept.
- 2) To define the relationship between the likelihood of corporate entrepreneurship and the characteristics of the manager.
- 3) To draw the link between the likelihood of corporate entrepreneurship and the moral consideration of the manager.
- 4) To determine the likelihood of corporate entrepreneurship in large corporations.

To explore the likelihood of corporate entrepreneurship in large corporations, there should first be an attempt to link the relationships on the key issues, such as corporate entrepreneurship,

individual entrepreneurship, innovation, conflict of interest as predicted by the agency theory, and the ethical issue. But it must be remembered that the key factor on the decision is the manager himself.

To put the issues together in the framework, innovation should be considered as the starting point for the manager to make a decision as to the best way to implement the innovation. The decision is whether to develop the innovative concept himself or not. If the manager decides to develop the innovative concept himself, it would result to individual entrepreneurship. If the manager decides not to develop the innovative concept himself, it would result to corporate entrepreneurship. There are three factors which could affect the decision-making of the manager. The three factors are conflict of interest as predicted by agency theory, the characteristics of the manager and the ethical consideration. Figure 1 below depicts the conceptual framework.

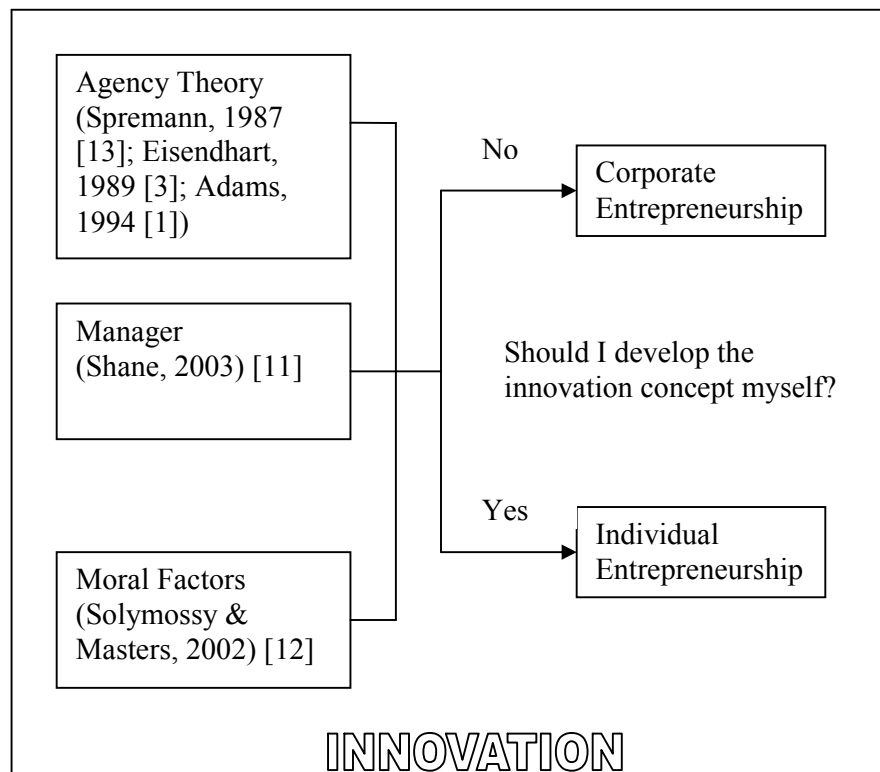


Figure 1 Conceptual Framework

2. RESEARCH DESIGN

This is an explanatory research design using a multiple case study method. A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context and that copes with the technically distinctive situation in which there will be many more variables of interest than data points and relies on multiple sources of evidence (Yin, 2003) [15].

Semi-structured interviews (Saunders, 2009) [9] were conducted to the entrepreneur and managers of large corporations. To ensure validity and reliability of the measurement, the personal background and the executive profile were examined to reconcile the opinions of the respondents from the semi-structured interviews. The sampling logic of the unit of analysis (Yin, 2003) [15] was based on the likelihood of the respondents to explore the innovative concept for their own interests. Data analysis was carried out based on the results of the semi-structured interviews to assess the existence and the degree of seriousness of using the innovative concept.

This was also to explore the opportunities for personal benefits instead of considering it as company assets.

To review the relationships of the key issues and to develop the propositions of this study on the likelihood of corporate entrepreneurship in large corporations, the independent variables of the study are Conflict of Interest, Characteristics of Manager, and Moral Consideration, while the dependent variable is the likelihood of corporate entrepreneurship in large corporations. Propositions are set based on the relationship between the independent variables and the dependent variable. The questionnaires were designed to cover the respective proposition for each of the relationship between independent and the dependent variables. The visual view of the operational framework is shown in Figure 2 below.

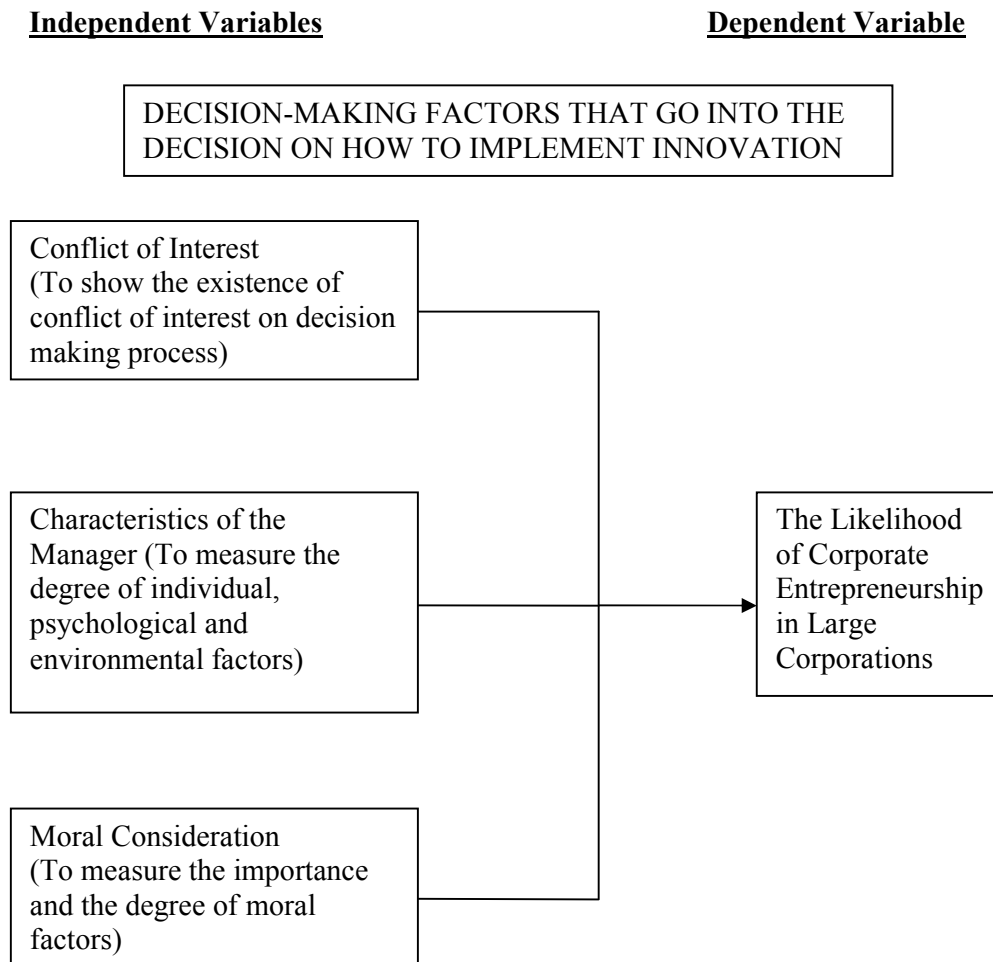


Figure 2 Operational Framework

In order to evaluate the existence of literal replications (Yin, 2003) [15] of the developed theories, this research used three case studies. The key questions in the case studies were focused on the reasoning and the processes of each of the answer to the respective question. The comments on each case study were analyzed and utilized to update the case and the theory before conducting the next case study. In addition to the verbal comments obtained during the interviews, two other

sources of evidence were carried out during the course of the case study for analysis purposes. They are direct observations and review of personal background by going through the personal executive profile.

According to Yin (2003) [15], each individual case is considered a whole study on its own, in which convergent evidence is sought regarding the facts and conclusions for each case. Each case's conclusions are considered to be the information which needs replication by other individual cases. If there is any important discovery found during the conduct of one of the individual case studies, the previously developed theories will be redesigned before proceeding further to the next individual case. An overall conclusion was drawn based on proper analysis and interpretation on the results of the three case studies.

Since this is a case study approach, the analysis on the comments from the respondents was carried out for each question, in addition to the evidence obtained during the interview (Yin, 2003) [15]. The answer for each question were reviewed and analyzed to draw conclusion for each case from the various piece of evidence. An overall conclusion was drawn to explain the results of the three studies against the propositions.

Data analysis was carried to test the results of the study. Emphasis was placed on the reasoning and the selection process of the answers. In other words, the case study was focused in answering "how" and "why" questions. On the questionnaire design, the response from each question was weighed using a 5-point Likert's scale to show strongly agree to strongly disagree. The overall questionnaire is divided into four parts: Conflict of Interest, Characteristics of Manager, Moral Consideration and the Likelihood of Corporate Entrepreneurship. On the Characteristics of Manager, the questions are focused on education level, career experience, age, personality and motivation and economic environment as per Shane 2003 [11]. On the Moral Consideration, the questions are focused on characteristic of moral issue and situational characteristics as per Solymossy & Masters 2002 [12].

The population and the respondents are the entrepreneurs and employees of large corporations in the Philippines. The three cases were:

- 1) A manager of a large corporation in the Philippines with over 10 years working experience in managerial position.
- 2) A manager of a large corporation in the Philippines with less than five years working experience in managerial position.
- 3) An existing entrepreneur with previous working experience in a large corporation in the Philippines.

The sampling logic (Yin, 2003 [15]; Nicholson & Kiel, 2007 [7]) for the three case studies was based on the likelihood of the respondents to explore the innovative concept for their own interests, which is the key proposition of this research. For the first case, the respondent is an experienced manager with over 10 years experience in a large corporation. Based on his long working experience in the large corporation, the likelihood of exploring the innovation concept for his own interests would be low. For the second case, the respondent is a relatively new management staff of a large corporation. The likelihood of exploring the innovation concept for his own interests would be medium, about 50-50 percent chance. For the third case, the respondent has the experience of working in a large corporation and is currently engaged in his own business. There is a high likelihood for the third respondent to explore the innovation concept for his own interest. As such, the sampling logic was to cover the three cases with low, medium, and high likelihood of exploring the innovation concept for own interests.

3. RESULTS

In general, the results of the three cases support the proposition and literal replication (Yin, 2003) [8] is expected. Figure 3 below shows the summary of the results.

Results Summary

Proposition	Conclusion from First Case	First Case supports proposition	Conclusion from Second Case	Second Case supports proposition	Conclusion from Third Case	Third Case supports proposition	Conclusion from Cross Case Analysis	Support the Literal Replication
1 - Conflict of Interest exists	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
2(a) - Good education supports entrepreneurship	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
2(b) - Strong career experience supports entrepreneurship	Strongly Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
2(c) - Young age supports entrepreneurship	Agree	Yes	Disagree	No	Agree	Yes	Show opposite results from the cases.	No
2(d) - Strong personality and motivations support entrepreneurship	Agree	Yes	Strongly Agree	Yes	Strongly Agree	Yes	All cases support the proposition	Yes
2(e) - Good economic environment supports entrepreneurship	Strongly Agree	Yes	Strongly Agree	Yes	Disagree	No	Show opposite results from the cases.	No
2(Overall) - Strong relationship between the characteristics of manager and entrepreneurship	Strongly Agree	Yes	Agree	Yes	Strongly Agree	Yes	All cases support the proposition	Yes
3(a) - It is a weak moral issue to use the innovation concept for personal benefits	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
3(b) - There is weak situational characteristics to use the innovation concept for personal benefits	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
3(Overall) - The existence of relationship between the moral consideration and entrepreneurship	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
4 - Low likelihood of corporate entrepreneurship based on conflict of interest consideration.	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
4 - Low likelihood of corporate entrepreneurship based on characteristics of manager consideration.	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
4 - Low likelihood of corporate entrepreneurship based on moral consideration.	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes
4 - Low likelihood of corporate entrepreneurship based on all factors considerations.	Agree	Yes	Agree	Yes	Agree	Yes	All cases support the proposition	Yes

Figure 3 Results Summary

All of the three cases agree that the situation constitutes a conflict of interest. All the three cases agree on the existence of self-seeking motives of a manager in general and that the manager is likely to take the opportunity of acting against the interest of the company. This indicates that all the three cases agree with the concept of the agency theory and the conflict of interest. People will favor personal interest of pursuing their own entrepreneurship by exploring the innovation concept themselves. This supported the arguments of the agency theory and the self-interest by Eisenhardt (1989) [3].

Although not all of the factors, as shown by Shane (2003) [11], were agreed by the three respondents, they still agreed with most of the measured factors in this research. Furthermore, all the three cases support that the characteristics of a manager are strongly associated with the decision-making process in terms of exploring the innovation concept. This could be the main supporting factor because a literal replication is expected (Yin, 2003) [15].

The three cases support the idea that a good education, a strong career experience, and a strong personality and motivations are strong factors to support entrepreneurship. In contrast, the three cases do not support the idea that a young age and a good economic environment are factors to support entrepreneurship. From the perspective of the individual factors (Shane, 2003) [11], the three cases support two out of the three measured individual factors. From the perspective of psychological factors and environmental factors, the three cases support the measured factors.

With respect to the Philippine culture, all of the three respondents mentioned that the people in the Philippines supported the decision of exploring the innovation concept to pursue their own entrepreneurship. This is in fact a strong support to the high socio-cultural environment as mentioned by Shane (2003) [11]. From the comments of the three cases, there is a social desirability of entrepreneurship in the Philippines culture. It would be a good area for further research on how to enhance and develop this culture for better economic growth of the country.

The three respondents agree that a moral issue exists and that the moral judgment of the manager is the key factor for moral consideration. Also, the three respondents agree that the innovation concept may be used for personal benefits since it is a weak characteristic of the moral issue and there are weak situational characteristics for the moral judgment.

A review of the situational characteristics shows that the respondents view that the Philippine culture does not place much concern on the innovation concept for own benefits. On the other hand, the manager is willing to explore the innovation concept for personal benefits instead of passing the concept to the company. Apparently, the culture in the Philippines promotes the concept of exploring the innovation concept on one's own.

In terms of the ethical decision-making model of Solymossy and Masters (2002) [12], all of the three cases supported the general processes in the ethical decision-making model, namely; recognizing the moral issue, making moral judgments, and engaging in moral behavior.

The innovation concept can either be work related or can have a direct conflict with the business of the large corporation. These will affect some degree of conflict of interest under the agency theory and the degree of moral judgment under the moral consideration. These were supported by the comments of the respondents. The impact on the conflict of interest could be reduced or eliminated if the innovation concept is not work related. Similarly, the impact on the moral issue could be reduced or eliminated if the innovation concept is not in direct conflict with the business of the large corporation.

From the results, all the three cases support the idea that the innovation concept needs to be explored to pursue their own entrepreneurship. Furthermore, all of the three cases show the same consistent conclusions for the individual consideration of the conflict of interest, the characteristics of managers, and the moral issue, as well as the overall combined consideration of all the other issues. This confirms the idea of this research that the likelihood of corporate entrepreneurship in a large corporation is low.

4. CONCLUSIONS

As this is an explanatory research using a multiple case study method, this research investigated the likelihood of corporate entrepreneurship in large corporations. The conflict of interest, the characteristics of the managers to support entrepreneurship, and the moral consideration are the three factors of the likelihood of corporate entrepreneurship in large corporations. From the results of the three case studies, the theories and propositions are supported and literal replication (Yin, 2003) [15] is expected, especially for proposition 4, and that is, the likelihood of corporate entrepreneurship in a large corporation is low.

The results support that the existence conflict of interest in determining how to develop the innovation concept. The likelihood of corporate entrepreneurship is strongly associated with the characteristics of the manager although not all the individual measured factors supported the literal replication. The age and the good economic environment are the two factors which did not support the literal replication. The factors of good education, strong career experience, and strong personality and motivations are strongly associated and supported the literal replication as well as the agreement of strong association between the characteristics of manager and the entrepreneurship. The results also support the existence of the moral consideration in determining how to explore the innovation concept.

With regard to the main objective of the research, which is, to determine if the manager will explore the innovation concept himself for individual entrepreneurship, the results support the

theories and propositions. The results support the individual elements, namely conflict of interest, characteristics of a manager, and moral consideration. Furthermore, the results also support the combined consideration of all issues and elements. The results from each of the case are consistent and thus, literal replication is expected on the idea that a manager explores the innovation concept for personal benefits. In other words, the likelihood of corporate entrepreneurship in large corporations is low. Manager will favor the development of individual entrepreneurship rather than sharing the innovation idea with the large corporations.

The three cases of this research cover the different likelihood of the respondents to explore the innovation concept for company use or for personal use. Despite a long working experience, a new promotion, or an existing entrepreneur with a prior working experience in large corporations, all respondents agreed to take the opportunity and explore the innovation concept for personal benefits.

This is an important finding in the theory of corporate entrepreneurship. From a traditional approach, corporation entrepreneurship will result in the promotion of innovation in large corporations. With the results of this study, promoting an innovation alone would not warrant corporate entrepreneurship in the large corporations, as the managers with the innovation concept could consider exploring it for themselves for their own interests.

The results of this study also claim that the managers would favor exploring the innovation concept for their own benefits and for their individual entrepreneurship. In other words, the likelihood of corporation entrepreneurship in a large corporation is low. The large corporations need to reconsider their strategy in promoting corporate entrepreneurship in the company in order to maintain their competitive strength and to increase their profitability over time. If the large corporations still view that innovation is the important element to bring the company to be more competitive in the market and to enable the company to have opportunity to increase its returns in long run, the large corporations need to reposition their strategy in corporate entrepreneurship covering how to raise the level of innovation, and, how to encourage the employees to share their innovation concept, how to keep the employees to favor corporate entrepreneurship as compared to individual entrepreneurship.

From the comments of the case study, the reward program to the managers with innovation concept is one of the key factors to pursue corporate entrepreneurship in the long run. For instance, some kind of ownership programs could be considered so as to attract the managers to pursue corporate entrepreneurship.

From an individual's perspective, this study confirms the likelihood of the managers to favor the use of the innovation concept for own entrepreneurship. This is an important way to encourage entrepreneurship in the country. Entrepreneurship could be one of the factors to secure economic growth, especially in the advanced technology world. Accordingly, one of the concerns for individual entrepreneurship in the Philippines is the start-up capital, as mentioned by some of the respondents. The government could consider some programs to assist those potential entrepreneurs to promote entrepreneurial spirit in the country.

In respect of limitation, this research is conducted in Manila, Philippines. The research could be applied to the entire country and to the other countries, including both Asian countries and outside of Asia. The other possible areas for further research are the other factors mentioned by Shane (2003) [11] but not covered by this study, in particular, opportunity cost, social position, industry factors, social-cultural environment and market uncertainty, as well as the social relationship with others (Solymosy & Masters, 2002) [1].

REFERENCES

1. Adams, M.B. (1994). Agency theory and the internal audit. *Managing Auditing Journal*, 9(8), 8-13.
2. Arrow, K. (1985). The economics of agency. In Pratt, J. W. & Zeckhauser, R. J. (eds) *Principals and agents: The structure of business*. Boston: Harvard Business Press. 37-51.

Tel.: +63-917-5077606

E-mail address: jafylok@yahoo.com

3. Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Journal*, 14(1), 57-74.
4. Jones, G. R. & Butler, J. E. (1992). Managing internal corporate entrepreneurship: An agency theory perspective. *Journal of Management*, 18(4), 733-749.
5. Kerr, J. L. & Werther, W. B. (2008). The next frontier in corporate governance: Engaging the board in strategy. *Organization Dynamics*, 37(2), 112.
6. Maskin, Eric & Tirole, Jean. (1999). Unforeseen contingencies and incomplete contracts. *Rev. Econ. Stud.*, 66, 83-114.
7. Nicholson, J.G. & Kiel, C. G. (2007). Can directors impact performance? A case-based test of three theories of corporate governance. *The Authors*, 15(4), 585-608.
8. Rosenow, F.A.A.B.M. (2002). Recent developments in treatment of status epilepticus: 3 review. *Epileptic Disord*, 4 (Suppl 2), 41-51.
9. Saunders, M., Lewis P., & Thornhill, A. (2009). Research methods for business students. Philippines: Pearson Education South Asia Pte Ltd.
10. Schumpeter, J. A. (1934). *The theory of economic development*. Cambridge, MA: Harvard University Press.
11. Shane, S. (2003). A general theory of entrepreneurship: The individual-opportunity nexus. Edward Elgar: UK.
12. Solymosy, E. & Masters, J.K. (2002). Ethics through an entrepreneurial lens: Theory and observation. *Journal of Business Ethics*, 38(3), 227-241.
13. Spremann, Klaus. Agent and Principal. In Bamberg, G. & Spremann, K. (1987) (eds) *Agency theory, information, and incentives*. Berlin: Springer Verlag, 3-38.
14. Watermann, Richard W. & Meier, Kenneth. (1998). Principal-agent models: An expansion? *Journal of Public Administration Research and theory*, 8, 173-202.
15. Yin, R.K. (2003). *Case study research design and methods*. California: SAGE Publications.