

# Corporate entrepreneurship versus Operations control mechanism

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**Abstract:** Rules, methods and procedures are highly important and result in successful innovation. A good manager has to understand very well the tight relationship that exists between factors that facilitate the entrepreneurial innovation process and factors that control it – i.e. operations control mechanism. In many cases corporate entrepreneurs see the operations control as antithetical to their tasks. The main and most difficult goal is to achieve balance –*aurea mediocritas*– : balanced “Direction” approach; balanced “Space” approach; balanced “Boundaries” approach; balanced “Support” approach. Getting this balance right is the feature of effective corporate entrepreneurship, where all the abovementioned elements have to be seen as part of an integrated system.

**Key words:** corporate entrepreneurship, operations control mechanism, innovation;

### 1. Introduction

According to Ginsberg and Hay, corporate entrepreneurship is viewed as the process that generates and exploits new technologies, products, brands or businesses under the corporate umbrella of an established firm. Corporate entrepreneurship means the development of a new business concept within established companies. It is a process that goes on inside an existing firm that should lead to new services, products or processes as a result of its renewal strategies. This means speeding up processes inside a corporation which contribute to inventing and commercializing new products or services.

According to Wolcott and Lippitz (2007), the teams of the parent company use the resources within the company for managing the new projects. This could mean much more than development of new products, but it could mean as well important innovations to existing products or brands.

An entrepreneur means an individual who has the capability to identify new opportunities and turn them into a success business. In the end, the main goal is to create wealth. Within a corporation, one of the main duties of senior executive is to develop corporate systems and processes that support entrepreneurship within the organization. In our rapidly changing business environment it is fairly difficult to predict the changes that will take place in the future. Entrepreneurship means far more than just being innovative. It is about flexibility, dynamism and creativity. It is about being growth oriented and about taking risks.

We can name some of the most important benefits for corporate entrepreneurs within a company: most of the resources are already available (e.g. access to finances,

research and development, sales force, an established brand, distribution channels, customer base). Their job is secure. If their entrepreneurial initiative fails, they are not fired. If a mistake is made, the corporation can manage and cover the failure. Individuals within the corporation are always ready to help in finding new ideas.

### 2. Relationship between corporate entrepreneurship and operations control mechanism

Corporate entrepreneurship's exhibition and its success are not synonyms. Without an operations control mechanism, companies with corporate entrepreneurial initiative could generate an incoherent amount of "interesting but unrelated opportunities that may have profit potential, but that do not move [those] firms toward a desirable future".

For this reason it is of crucial importance for a company to have the ability to use judiciously the operations control mechanisms in order to select, guide, and possibly terminate entrepreneurial initiatives. Therefore, it must be a strong cooperation between entrepreneurship initiative and operations control mechanisms to promote innovation performance.

Operations control mechanisms have an overwhelming role on the business oriented innovation performances of companies which encourage entrepreneurship initiative. The operations control mechanisms have a positive moderating effect, establishing thus a beneficial balance.

It is often difficult to create and implement a corporate entrepreneurship strategy within a company in order to facilitate

innovation performance, because of the apparent antinomy between corporate entrepreneurship on the one side, and operations control, on the other side. In many cases corporate entrepreneurs see the operations control as antithetical to their goals.

The solution is a balance between the operations control mechanisms and corporate entrepreneurship initiative. Each respectable company should have its own structure, strategy and procedures. As a result, each employee should behave accordingly to the structure, strategy and procedures of that very company. The operations control systems belong to the procedures, and, as such, have a great impact on the entrepreneurial behaviour of the employees. Not the absence of operations control systems is needed in corporations that actively promote a corporate entrepreneurship strategy. The key is the alignment of the control mechanism with the antecedents to corporate entrepreneurship. Research on this topic has shown that control procedures can be highly beneficial to the development of new services and technologies or introduction of new innovative products.

The main idea that must be understood is the need of a balanced relationship between factors that facilitate entrepreneurial innovation and those which belong to innovation control systems.

It is an everlasting tension, even a conflict between resource efficiency and innovation. One must understand that innovation needs financial support. At the same time, without innovation, financial success is not possible.

Control procedures depend on the level of dynamism that governs that company and also the field of activity. Among companies that act in high-tech fields –so-called

fast-changing industries-, successful innovation control procedures were very flexible. Their goal was aimed on seeking an opportunity than on avoiding a risk. It is explainable. Not being constantly innovative in such fast-changing industries means collapse.

On the other hand, among companies performing in slower-changing industries, successful innovation procedures were based on risk reduction and lower entrepreneurship efforts.

### 3. Organizational antecedents

There have been identified specific organizational antecedents for entrepreneurial innovative behaviour. Among these we name: – top management support, organizational structure/boundaries, work discretion/autonomy, time availability and rewards/reinforcement – as being considered to be the most important organizational antecedents need for employees to behave entrepreneurially.

Without this antecedents which aim to encourage entrepreneurial behaviour, exploiting entrepreneurial opportunities will be impossible regardless of how eager to entrepreneurial innovation activities the employees could be.

(1) Top management support: top managers encourage entrepreneurial behaviour in a clear and open way; this include asking for and rewarding innovative ideas as well as providing the necessary resources that people need to engage in entrepreneurial actions.

(2) Work discretion: it means that the employee knows that the company is prepared to assume and tolerate failure; it provides decision-making latitude and freedom from excessive pressure. It is well known that

opportunities are mostly found by persons allowed to engage in experimentation.

(3) Rewards and reinforcement: reward systems that encourage assuming risks.

(4) Time availability: the employees must be provided with free time which will enable them to think at innovation opportunities.

(5) Organizational boundaries: Flexible boundaries could be very useful in promoting entrepreneurial activity. However, innovative success emerge most often when innovation is understood as a structured and purposeful discipline-based process. Otherwise, it could turn into a chaos. As a result, entrepreneurial innovation activity should be a coordinated process across the company.

There are many mechanisms through which operations control management is exercised by companies. Among these we name one of the most relevant: i.e. process control formality. Under high process control, a well and clear defined work environment with certain tasks eliminates uncertainty in the performance of duties. On the other hand, this also reduces the worker's degree of freedom to choose how to best achieve their goals. Process control formality can be low or can be high. This depends on the organizations culture and its managers' will to impose how tasks shall be performed. In high process control formality, the monitoring costs on how the tasks are being achieved is low.

High process control formality clarifies for corporate entrepreneurs how their innovative behaviours and initiatives have to take place in a pre-defined structure and process sense. In this way, process control formality is positive, resulting a disciplined approach to innovation, and innovation performance

is highest when innovation is regarded as a clear and "measurable" way.

#### 4. Considerations on "What goes wrong"

We have to admit ab initio that not all entrepreneurial initiative has positive results for the organization. At the same time we have to admit also that control is not at all the enemy of innovation.

Without a clear direction of where the company is going, entrepreneurship actions represent a set of aimless initiatives. Despite the fact that each particular action could seem perfectly rational, the end result is an incoherent mixture.

There is another important issue, which can arise if the personnel is given far too much space and time to pursue their entrepreneurial researches. Under such circumstances, they could lose focus on achieving their common tasks of their normal jobs, which will have negative consequences on the company.

Nevertheless, there are important benefits of giving the personnel much autonomy, namely space and time in which to act. Examples include highly innovative corporations, such as Ericsson SpA or Johnson & Johnson. However, when too much space is offered the situation can become critical – as it was the case of Enron corporation.

Focusing mainly on new opportunities and promoting an aggressive risk-reward mentality, the company was neglecting its existing traditional businesses which brought them the money. Too few boundaries within the company can lead the organization to a disaster. Lax controls were one of the main reasons which allowed individuals to lead

entire companies to disaster. (e.g. Recall Nick Leeson at Barings Bank)

With too little support, individual managers could be tempted to act like lone entrepreneurs, taking initiative on their own, without any consultation. This could lead to duplication: e.g. different business units of the same company competing for the same customers.

The presence of rules, methods and procedures are highly important and result in successful innovation. A good manager has to understand very well the tight relationship that exists between factors that facilitate the entrepreneurial innovation process and factors that control it. The main and most difficult goal is to achieve balance:

(a) A company needs a balanced direction approach. The corporation's strategy has to be drawn by its senior executives. Managers do not have input regarding the development of strategy. Senior executives are those ones who develop goals for businesses and, at the same time, work with managers on how the goals have to be achieved. All new services/ products or market ideas have to be examined by senior executives. As a result, the direction in a corporation has to be set from the top. At the same time, managers do have enough freedom to develop the strategy for the businesses they run, but in line with that direction. Senior executives' main duty is much more to identify the goals for the businesses, than how those goals have to be achieved.

(b) A company needs a balanced "Space" approach. Employees have to be allowed to spend around 10 percent of their time on things that are not formally part of their job description. This is very important for encouraging them to take initiative.

(c) A company needs balanced "Boundaries" approach. Boundaries should regard anything that can threaten the viability of the corporation. As a result, those who do not work within these boundaries face dismissal. Failure to work within any other boundaries -than those who threaten the corporation's viability- should not be punished as severe.

(d) A company needs a balanced "Support" approach. Training programmes, as well as career planning should be organised on a top-down basis. Nevertheless, the employees should have the freedom to take part or not. The main goal is to encourage, but not to impose business units to collaborate or/and share their knowledge. On the other hand, sometimes there is a strong need for managing knowledge and information only in a centralized manner.

## **5. Conclusion. Finding balance between constraint and chaos. Equilibrium and clarity**

Getting the balance right is a feature of effective corporate entrepreneurship, where all the above mentioned elements have to be seen as part of an integrated system. If not, the failure could be fairly close: little direction but too much space leads to a lack of focused effort, but as long as boundaries are carefully managed, the risk can still be manageable. The well-known corporation 3M, for example, is recognised for providing personal space and defining its direction in very broad terms. However, it does so within a system that provides strong lateral support and very powerful normative values of integrity and collegiality. On the other hand, one can easily identify elements that led to

failure. Among these, we have to name: e.g. lack of strategic direction, employees who are given too much space or ineffective support systems.

Corporate entrepreneurship will flourish when balance is achieved. Entrepreneurial equilibrium is the key. First of all, companies have to perform balancing acts within the strategy area, without forgetting the operations and organization. This will lead to developing a clear strategy, creating an executable model, and conquering a good position on the market. Strategy development can be achieved by trial and error. As new businesses operate in ambiguous environments, failure can and should never be excluded. Combination of open-minded opportunism (we have to try it and see how customers react; then we will make the changes based on what the customers do want) and a very disciplined planning (explore the market, formulate a hypothesis about what people do need, design experiments to test our hypothesis, and repeat the process until we

will have the right product/service, technology and business model).

New and efficient ideas (e.g. collaborative brainstorming) are not achieved by the way of unguided searching. Corporation do need strong criteria to narrow the range of potential choices and to judge if a certain technology or a certain market presents or not a business opportunity. In this stage it is not important to answer immediately every question and to have everything under control. On the opposite, the question's quality is more important because good questions lead to success.

"Strategic clarity" is the key-concept. That means having a very good understanding of the new business's marketplace, customers to be pursued, existing and needed capabilities, innovation that could offer an advantage over the competitors, and the detailed steps that have to be taken next and possible adjustments that could become necessary depending on the changing business environment.

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