

A Proposed Framework of Corporate Entrepreneurship in Government-linked Companies

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Abstract

The growth of public enterprises or government-linked companies (GLCs) has been phenomenal over the years. However, the performance of GLCs remains a major concern. On the other hand, past studies have postulated that there is a strong relationship between corporate entrepreneurship (CE), entrepreneurial orientation (EO) and firm performance. Despite this, viewing GLCs' performance in the context of CE or EO has received minimal attention among strategic management and entrepreneurship scholars. This paper highlights and discusses the performance of GLCs within the context of CE. Given the role of EO as a direct predictor while proposing CE internal and external factors as moderators of the EO-CE performance relationship in GLCs, a proposed framework of CE within the context of GLCs in Malaysia is proposed.

Keywords: Corporate entrepreneurship, Entrepreneurial orientation, Internal factors, External factors, Firm performance

1. Introduction

Despite rapid development achieved by most of the countries in Asia, the pursuit of socio-economic growth remains one of the key development agendas and hence, the role of public enterprises continues to be vital. Consequently, most governments in these countries have established corporate entities where the majority of the shares are owned by the government (Abdullah & Said, 2015; Isa & Lee, 2016). Later, public enterprise has been perceived as a major instrument for industrial and commercial development throughout the developing world (Khandwalla, 1984). In fact, the emergence of these organisations was caused by the "Industrial Revolutions in the 18th and 19th centuries in the West and the

colonial rule in a number of Asian and African countries which had led to massive societal imbalances” (Basu, 2005, p.16). Despite its significant contributions to the economy the subject of Government participations through the creation of public enterprises in various sectors of the economy continuous to attract attention due to poor performance (Ab Razak, Ahmad, & Aliahmed Joher, 2011; Isa & Lee, 2016; Lau & Tong, 2008; United Nations, 2005). In fact, the performance of public enterprises in most of the developing countries remains unsatisfactory (Heath, 1990). However, the role of these companies is still significant in supporting the overall growth of their national economy. Given this, the existence of public enterprises in a number of regions and countries including Malaysia continues to prevail.

Although the contribution of public enterprises to the economy is well recognised (Heath, 1990; Khandwalla, 1984; Putrajaya Committee on GLC High Performance, 2007), the performance of these companies continues to be a major concern (Isa & Lee, 2016; Khazanah Nasional, 2018). On the other hand, scholars have consistently postulated that there is a strong relationship between corporate entrepreneurship (CE) and/or entrepreneurial orientation (EO) and companies’ financial performance (Wiklund, 1999; Zahra, 1991). However, in the context of a more difficult global business environment caused by several external forces such as continuous market disruption, rapid technological changes and liberalisation of government policy, many organisations have been forced to strategically restructure/realign their internal resources (Morris, Kuratko, & Covin, 2008). Therefore, in search of sustainable competitive advantage and high performance, many organisations have turned to corporate entrepreneurship as a strategic alternative (Morris et al., 2008; Thornberry, 2001).

In fact, entrepreneurship has been argued as a primary catalyst for economic growth and regional development (Hall & Sobel, 2006). Despite this, research on public or government business enterprises in the context of corporate entrepreneurship is still minimal. In this paper, the performance of GLCs is highlighted and reviewed. Subsequently, the study explores the concepts of CE, organisational EO and the underlying reasons for companies to pursue CE activities. Given the complexity of the business environment and the interaction between organisational variables, the study develops and proposes a CE framework from the key internal and external CE factors. More importantly, the study postulates that CE activities in GLCs will be determined by the extent to which they demonstrate proactiveness, innovativeness and risk-taking orientations. Hence, the study argues that the existing EO degree and the interaction between the internal and external CE variables will influence GLCs’ ability to pursue and undertake CE activities and this will eventually affect their financial and overall performance. Finally, a conceptual framework of CE for government-linked companies in Malaysia is proposed.

2. Literature Review

Following the inception of the New Economic Policy in 1970, the establishment of public enterprises or government-linked companies was initiated to expedite socio-economic growth (Economic Planning Unit, 2004). Initially, these organisations provided essential public

services (Putrajaya Committee on GLC High Performance, 2006). Despite poor performance, the growth of public enterprises has been phenomenal in various key sectors of the economy and they constitute a significant part of today's economic structure of the nation (Putrajaya Committee on GLC High Performance, 2005). In fact, over the past several decades GLCs have played a crucial role in the development of the country and there is a strong correlation between the nation's overall economic success and GLCs' performance (Khazanah Nasional, 2018; Putrajaya Committee on GLC High Performance, 2006).

Given in terms of its market capitalisation of 36 per cent of the Malaysian stock exchange's and 54 per cent of the entities that make up the Kuala Lumpur Composite Index (Steinbock, 2014), hence the Government posits that GLCs will continue to play a crucial role in economic transformation as well as the future industrialisation of the nation. However, since the inception of GLCs, the overall performance of these companies remains a major concern (Isa & Lee, 2016). Hence, there is an urgent need to investigate the performance of GLCs from the perspective of corporate entrepreneurship because research continues to suggest that the practice of organizational entrepreneurship and or entrepreneurial orientation may lead to the superior financial performance of firms (Antoncic & Hisrich, 2004; Bierwerth, Schwens, Isidor, & Kabst, 2015; Covin & Slevin, 1989; Wiklund, 1999; Zahra, 1991). Building on this premise, this paper proposes to conceptualise the potential effects of EO on CE performance in terms of innovation, strategic renewal and corporate venturing and to investigate how this relationship will be affected directly or indirectly by internal and external CE factors. Therefore, given the current performance of GLCs, the extent to which EO will contribute to CE performance and eventually their overall competitiveness as well as financial performance is appropriate and timely.

3. Multifaceted and Pursuit of Corporate Entrepreneurship

The meaning of corporate entrepreneurship (CE) remains inconclusive (Entebang, 2010). For example, CE has been regarded as a form of entrepreneurial activities (Schollhammer, 1982) and this has gained further support from Antoncic & Hisrich (2004). However, Zahra (1995) argues that CE is concerned with innovation, renewal, and venturing activities of a company. On the other hand, Burgelman (1983) postulates that CE is a process of diversification through internal development, while Sharma & Chrisman (1999) view CE as a process of creating a new organisation or instigate renewal or innovation within established entity. Others associate CE with entrepreneurial behaviour inside established mid-sized and large organisations (Covin & Slevin, 1991; Morris & Kuratko, 2002). In the same vein, CE represents strategic renewal, innovation and corporate venturing activities of firms (Bierwerth et al., 2015), while recognising that an entrepreneurial approach to competitive advantage is due to innovation and new product introductions (Dess, Lumpkin, & McGee, 1999). Therefore, CE has emerged multifacetedly. In short, CE appears to have established itself as an entrepreneurial activity, an entrepreneurial process, and as a behaviour of firm pursued by individuals (a group of employees) in order to generate innovation, strategic renewal, and corporate venturing initiatives for the purposes of creating superior growth.

The ever changing of market environment, declined profitability and the need for discontinuous innovation have caused many large and established organisations struggle to survive (Thornberry, 2001, 2006). In fact, Postigo notes that organisations around the world are constantly finding new ways to accomplish profit, growth, and competitiveness (Postigo, 2002). However, scholars argue that organisations' ability to maximize profitability over time has increasingly relied on entrepreneurial functions (Greiner, 1972), while Schollhammer (1982) suggests that corporate entrepreneurship is the key for gaining competitive advantage and greater financial rewards. In particular, Zahra strongly argues that CE has been associated with superior financial performance of a firm (Zahra, 1991, 1993). Hence, firms with higher CE will likely to perform better and vice versa (Antoncic & Hisrich, 2004). Therefore, the competitive business environment brought about by market changes, technological changes, and shifts in competitive approach requires firms to continually innovate, pursue strategic renewal, and initiate corporate venturing activities in order to achieve further growth and improve competitive position.

4. Entrepreneurial Orientation as Predictor

Entrepreneurial orientation concerns with the degree to which an organisation produces new things, reacts towards and exploits new opportunities and is able to take risks. In particular, Miller (1983) suggests that the study of organisational EO should be explored by assessing organisations' activities/behaviour such as product innovation, proactiveness, and risk-taking. Subsequently, Covin & Slevin (1991) argue that entrepreneurial firms will act innovatively, take risks, and behave proactively and competitively. Building on previous literature, Lumpkin & Dess (1996) propose another two dimensions for measuring the EO of a firm i.e. autonomy and competitive aggressiveness.

Scholars have conceptualised innovativeness as the seeking of creative, unusual or novel solutions to problems and needs (Ireland, Kuratko, & Morris, 2006b). Innovativeness occurs when organisations are willing to depart from the existing status quo (i.e. technologies or practices) and venture beyond the current state of the art (Kimberly, 1981). On the other hand, risk-taking is the "degree to which managers are willing to make large and risky resource commitments" (Miller & Friesen, 1978, p. 923) on opportunities but with a reasonable chance of failure as well as success (Ireland et al., 2006b). In fact, the risk-taking dimension of EO concerns firms' tendency to take bold actions such as venturing into unknown markets, committing a substantial amount of resources to ventures with uncertain outcomes, as well as the tendency to borrow heavily hoping to reap high returns (Lumpkin & Dess, 2001).

Notably, in exploiting potential opportunities, the importance of first-mover advantage (Lieberman & Montgomery, 1988) or proactiveness is paramount. According to Venkatraman (1989, p. 949), proactiveness refers to processes aimed at anticipating and acting on future needs by "seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle". Most importantly, it has been argued that EO has a long-term effect on perceived performance and

that EO over time can contribute to the value-adding activities of organisations (Madsen, 2004) as well as superior performance of firms (Sahi, Gupta, Cheng, & Lonial, 2019). Hence, the performance of an organisation is enhanced when its entrepreneurial intensity exceeds the industry average (Ireland, Kuratko, & Morris, 2006a). Consequently, this may imply that CE performance demonstrated in terms of innovation, strategic renewal and corporate venturing (Bierwerth et al., 2015; Entebang, 2010) may be influenced by the entrepreneurial orientation of an organisation. Recognising this, the following proposition is proposed for testing in GLCs:

Proposition 1

That entrepreneurial orientation will positively affect corporate entrepreneurship performance (innovation, strategic renewal and corporate venturing) in GLCs.

5. Internal Corporate Entrepreneurship Factors

A review of past literature suggests that organisational internal factors may promote or impede the entrepreneurial behaviour of firms (Zahra, 1991; Zahra & Covin, 1995; Zahra, Nielsen, & Bogner, 1999). In particular, the internal factors can influence its overall performance. In this paper, the effects of top management support, incentive/reward, time availability/resources, organisational boundary, work discretion, and culture/philosophy will be discussed and conceptualised as internal CE factors because they have consistently emerged as reliable and valid constructs (Covin & Slevin, 1991; Hornsby, Kuratko, & Zahra, 2002) and hence, we postulate the same factors will affect CE performance in GLCs.

5.1 Top Management Support

The performance of organisations has been associated with the role of the top management team (Haleblian & Finkelstein, 1993; Hambrick & Mason, 1984). In large, established organisations, top managers have influenced new product movement (Srivastava & Lee, 2005), new business creation (Sathe, 2003), an organisation's philosophy/culture (Covin & Slevin, 1991) and organisational entrepreneurial activities (Hornsby et al., 2002). In particular, Ireland et al. (2006, p. 27) claim that management support is about "the willingness of top-level managers to facilitate and promote entrepreneurial behaviour, including the championing of innovative ideas and providing the resources people require to behave entrepreneurially". Hence, in pursuit of financial performance in GLCs, the following proposition is proposed:

Proposition 2

That top management support of the organisation will directly/indirectly moderate the relationship between EO and CE performance in GLCs.

5.2 Work Discretion

The extent to which managers participate or are involved in entrepreneurial initiatives/activities can also be influenced by their work discretion. Work discretion or

autonomy refers to “top-level managers’ commitment to tolerate failure, provide decision-making latitude and freedom from excessive oversight, and to delegate authority and responsibility to middle-level managers” (Kuratko, Ireland, Covin, & Hornsby, 2005, p. 703). Therefore, in pursuit of improved organisational performance through CE, it is theorised that the relationship between CE and firm financial performance in GLCs will be moderated by the managers’ work discretion. This suggests the following proposition for testing:

Proposition 3

That work discretion of the organisation will directly/indirectly moderate the relationship between EO and CE performance in GLCs

5.3 Time Availability/Resources

In pursuing corporate entrepreneurial activities, putting aside time for such activities is another important antecedent. At the same time, employees or managers should also be convinced that they have the availability of resources to conduct experimentation and risk (Hornsby et al., 2002) and to carry out any potential projects/activities (Burgelman & Sayles, 1986; Das & Teng, 1997; Hisrich & Peters, 1986; Kanter, 1985; Sathe, 1985; Stopford & Baden-Fuller, 1994). In short, time availability “means evaluating workloads to ensure that individuals and groups have the time needed to pursue innovations and that their jobs are structured in ways that support efforts to achieve short- and long-term organisational goals” (Ireland, Kuratko, & Morris, 2006, p. 28). Therefore, it is posited that the relationship between the EO-CE performance relationship in GLCs will be moderated by the availability of time including resources that the manager’s perceived in carrying out such activities. Hence, the following proposition is posited:

Proposition 4

That time availability/resources of the organisation will directly/indirectly moderate the relationship between EO and CE performance in GLCs

5.4 Organisational Boundary

Scholars have long recognised that organisational structure can be a major obstacle for any manager to pursue CE activities (Brazeal, 1993; Burgelman & Sayles, 1986; Covin & Slevin, 1991). In particular, Burgelman & Sayles (1986) argue that supportive organisational structure may foster the administrative mechanisms where ideas can be properly assessed, selected and implemented. Later, Ireland et al. (2006, p. 28) suggest that organisational boundaries or supportive organisational structures refer to “precise explanations of outcomes expected from organisational work and development of mechanisms for evaluating, selecting and using innovations”. As large, established organisations, GLCs appear to be more highly structured, more uniform, restrictive, hierarchical, and rigidly controlled. Hence, the existing organisational structure factor will moderate the EO-CE performance relationship in GLCs. Therefore, the preceding argument implies the following proposition for testing:

Proposition 5

That the organisational boundary of the organisation will directly/indirectly moderate the relationship between EO and CE performance in GLCs

5.5 Reward/Incentive

An effective reward system appears to be another important factor which can promote/stimulate CE activities in organisations. Scholars argue that appropriate use of rewards as well as reinforcement mechanisms that can spur entrepreneurial activity must take into account important criteria such as goals, feedback, individual responsibility, and result-based incentives/incentive-based performance (Barringer & Milkovich, 1998; Block & Ornati, 1987; Kanter, 1985). Admitting this, it is argued that in order to stimulate the entrepreneurial activities of a firm, an effective reward system must take into account goals, feedback, emphasis on individual responsibility, and result-based incentives (Hornsby et al., 2002). In short, Ireland et al. (2006, p. 27) postulate that reinforcement “involves developing and using systems that reinforce entrepreneurial behaviour, highlight significant achievements and encourage pursuit of challenging work”. Building on past literature, it is argued that the relationship between EO and CE in GLCs will be moderated by the use of reward/reinforcement mechanisms. This leads to the following proposition:

Proposition 6

That the rewards/incentives of the organisation will directly/indirectly moderate the relationship between EO and CE performance in GLCs

5.6 Culture and Philosophy

Organisational culture refers to the common values, beliefs and attitudes, expectations and assumptions among employees and this in turn determines the norms for appropriate behaviour within the organization (Wheelen & Hunger, 1988), “a pattern of shared basic assumptions” (Schein, 1992 p.12), the beliefs that the corporate executives and the division managers have in common (Sathe, 2003). Hence, Cornwall & Pearlman (Cornwall & Perlman, 1990 p. 66) state that “culture is a key determinant of, and the first step in fostering, entrepreneurial activity within an organisation”. It touches everything that people do. Positive cultures are ones that are in line with an organisation’s vision, mission, and strategies. In entrepreneurial organisations positive cultures support organisational entrepreneurship. In other organisations where entrepreneurship is lacking as a strategic goal, the culture does not support risk-taking, searching opportunities, and innovation.” This observation leads to the following proposition:

Proposition 7

That the culture/philosophy of the organisation will directly/indirectly moderate the relationship between EO and CE performance in GLCs

6. External Corporate Entrepreneurship Factors

In the last few years, organisations around the world have experienced unprecedented global

turbulence due to continuous market disruption, rapid technological changes, liberalisation of trade policies, and financial instability. As a result, many organisations continue to experience increased operational costs, lack of exploitable opportunities, lack of profitability and shareholder value creation. These forces appeared to have affected many entrepreneurship initiatives/activities in large, established organisations. In particular, these external factors include: changes in government policy (Kent, 1984; Kilby, 1971), hostility, heterogeneity and dynamism (Lumpkin & Dess, 2001; Miller & Friesen, 1982), volatility (McKee, Vadarajan, & Pride, 1989), technological sophistication and industry life cycle stage (Covin & Slevin, 1991; Lumpkin & Dess, 2001). Hence, the extent to which the external CE factors will continue to affect the EO-CE performance relationship in GLCs requires immediate attention. For the purposes of this paper, government policy, technological sophistication and environmental hostility will be the main external CE factors affecting the EO-CE performance relationship.

6.1 Environmental Hostility

Within the context of CE, environmental hostility has emerged as one of the most prevalent external forces that affects firms' entrepreneurial performance (Covin & Slevin, 1991; Zahra, 1991). Past studies find that environmental hostility can have a significant moderating impact on the CE-performance relationship (Zahra & Covin, 1995). Many factors can cause the firm's technological capability to become obsolete: radical industry changes, intense regulation, fierce rivalry among competitors (Werner, Brouthers, & Brouthers, 1996); competitive market, and product-related uncertainties (Dess & Beard, 1984); precarious industry settings, overwhelming business climates (Slevin & Covin, 1995a); changing demand conditions and radical innovations (Zahra & Garvis, 2000). As a result, R&D spending appears to have a negative association with market share in such settings. In particular, Zahra (1996, p. 197) argues that organisations operating in hostile environments "may be reluctant to invest heavily in developing new technologies because hostility erodes profit margins and reduces the resources available for innovation". Despite such arguments, Covin & Slevin (1989) strongly claim that in highly competitive, hostile environments, entrepreneurial orientation seems to promote/stimulate high levels of firm performance. This observation leads to the construction of the following proposition.

Proposition 8

That external environmental hostility will directly/indirectly moderate the relationship between EO and CE performance in GLCs

6.2 Government Policy

Government regulations and their bureaucratic procedures can hinder as well as facilitate CE activity (i.e. new business creation/corporate venturing) (Sathe, 2003). Government can come up with policies that encourage/support the development of new technologies, products, and solutions. On the other hand, government can also appear to hinder CE activities when it introduces policy which can limit the autonomy as well as the entrepreneurial freedom of

some organisations particularly when they hold a major stake in that organisation.

In the case of GLCs, the establishment of the Putrajaya Committee on GLCs High Performance in 2005 by the Malaysian Government, for instance, may appear to facilitate the growth of GLCs through various programmes/initiatives but at the same time, the introduction of the 10 major initiatives for instance, as “something” that must be implemented in line with the government’s agenda and this can be seen as limiting the freedom of GLCs to act entrepreneurially. Therefore, the preceding argument implies the following proposition for testing:

Proposition 9

That government policy will directly/indirectly moderate the relationship between EO and CE performance in GLCs

6.3 Technological Sophistication

Advancement in technology and complexity in the core products and operation processes may influence the extent to which EO influences CE activities in organisations. Within the high-tech business environment, organisations often respond by frequently changing their technological standards, investing heavily in R&D and having strong technical resources (Loveridge & Pitt, 1990); (Souder & Sherman, 1994). At the moment, GLCs appear to be under performing and less competitive (Putrajaya Committee on GLC High Performance, 2006): thus, in pursuing organisational improvement and better performance through various CE activities, GLCs are expected to embrace technological capability, building competency based on R&D and possessing technical human resources that are efficiently mobilised. It is argued that the EO-CE performance relationship in GLCs can be further influenced by their technological sophistication. This observation leads to the following proposition:

Proposition 10

That technological sophistication will directly/indirectly moderate the relationship between EO and CE performance in GLCs

7. Proposed Framework of Corporate Entrepreneurship for GLCs

Covin & Slevin (1991) argued that the characteristics of a good model should show the performance of firms as the ultimate dependent variable, the independent variables are clearly defined, the model is related to the environment and that the environment is a major driving force in influencing the organisation’s strategy, structure, and processes while incorporating both the direct and moderator effects. Consistent with previous empirical evidence, the study argues that the ultimate dependent variable is the bottom line of a firm (i.e., financial performance), while CE initiatives/activities act as direct predictors of financial performance. However, in advancing the argument, the extent to which organisations like GLCs will pursue and undertake CE initiatives/activities is dependent on the degree of their entrepreneurial

orientation without discounting the potential effects of CE internal and external factors. Figure 1 below depicts the proposed integrated framework of CE for GLCs' business setting.

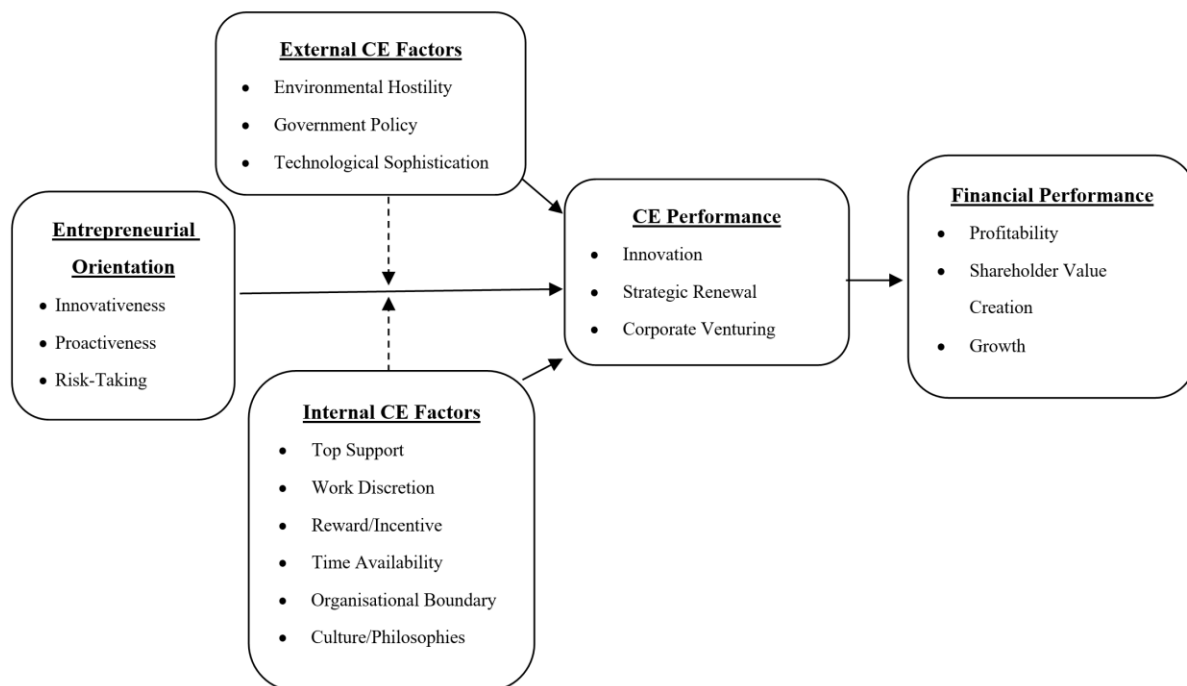


Figure 1. Integrated Framework of CE for GLCs

8. Conclusions and Future Research

In this paper, the significance of CE and/or the roles of EO on organisations' financial performance where previous empirical evidence has ignored the potential effects of EO on CE activities was reviewed. Hence, it is argued that the role of EO as predictor of CE performance should be investigated further and be considered as a new direction in studying the EO/CE performance relationship by integrating EO with CE performance and financial performance as the final outcome of the investigation, while recognising the potential effects of the internal and external CE factors as moderators. However, the study recognises some limitations of the proposed framework. In particular, the study does not consider the potential effects of other organisational internal and external factors such as strategic planning, leadership, knowledge management, entrepreneurial learning aspects of the firm, risk management, control systems, specific HR programmes, budgeting, board of directors' influence on major entrepreneurial undertakings, environmental dynamism and industry life cycle. Finally, future research should try to investigate the potential effects of EO on CE activities and the extent to which the relationship is determined by the internal and external CE factors.

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