

BOARD ENTREPRENEURIAL POTENTIAL AND CORPORATE ENTREPRENEURSHIP

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ABSTRACT

Many companies have sought to adopt the approaches used by entrepreneurs in small companies to achieve growth and performance improvement. The field of corporate entrepreneurship investigates the strategies that are successfully used by such companies and the benefit that they enjoy from using those strategies.

One area that appears to have attracted limited attention is how a company's board of directors influences its corporate entrepreneurship initiatives.

This paper presents research that explores how entrepreneurship is influenced by Boards of Directors at large publicly listed Australian commercial banks.

A model based on Krueger's construct of Entrepreneurial Potential is proposed and tested.

The research uses a case study methodology and involves analysis of in-depth interviews with members of the Boards of Directors of four banks.

The data supports the model and shows a positive association between the construct Board Entrepreneurial Potential and Corporate Entrepreneurship

The authors propose that if a company is to be entrepreneurial, the attitudes and perceptions of its Board must be changed either before or as a consequence of management's actions.

INTRODUCTION

Markets are aware of the importance of innovation and entrepreneurship if companies are to remain competitive. Investors reallocate funds from historically successful companies such as IBM, to innovative companies such as Apple without hesitation following successful innovation.

Companies react to the threat of radical innovation in a variety of ways. Some focus on achieving incremental improvement of their operations in anticipation that their existing business models will prevail. Others will behave entrepreneurially with the objective of becoming more competitive in their existing market or by identifying new opportunities.

While extensive research has explored what motivates an individual entrepreneur to act entrepreneurially, and some research has explored what motivates company managers to act entrepreneurially, the role of the Board in a company's decision to act entrepreneurially has attracted little attention.

This paper reviews the literature related to indicators for corporate entrepreneurship and the role of the Board; explores how the construct of entrepreneurial potential might be applied to a board; develops a model to explain how a Board's influences corporate entrepreneurship based on that construct; and then presents research that validates that model.

This study extends knowledge in the following ways, it demonstrates an association between the perceptions and attitudes of a company's board and corporate entrepreneurship at the company and provides a construct that can be used to predict a company's ability to undertake an entrepreneurial strategy.

THE FIRM

A firm can be characterised by a set of relationships between the factor of production, including suppliers, customers, creditors, and employees, who recognise that their destinies depend to some extent on the survival of the firm in its competition with other firms (Jensen and Meckling 1976, p.762).

Central to the firm is an organization, typically a company, which receives the firm's income and is responsible for its liabilities. The company is not an individual, but rather is a legal fiction which serves as a focus for the conflicting objectives of its members.

While organizations have existed to coordinate the actions of groups for thousands of years in many forms, including governments, religious bodies and craft unions, it is only relatively recently that the company has emerged in response to the opportunity to reduce operating costs by eliminating the costs associated with having separate contracts with each of the individuals associated with a larger scale operation (Coase 1937).

Companies were established as early as the sixth century to provide a means of sharing ownership in ventures that were seen as either too large or too risky for either individuals or governments to invest in. In the absence of what we know as *Company Law*, a specific government charter that defined their rights and obligations was required for their establishment.

In 1711, the British Government gave the South Sea Company exclusive trading rights to Spanish South America. The boom and subsequent crash in its share price led to the Bubble Act being proclaimed in 1720, so that an Act of Parliament was required before similar companies could be established (Mokyr 1999).

The Industrial Revolution led to entrepreneurs needing larger amounts of capital than individuals could afford to invest. While partnerships were the normal mode for business associations, the inefficiencies of this type of structure led to the repeal of the British Bubble Act in 1825 and the subsequent passing of the Joint Companies Act in 1856 (Mokyr 1999).

While this and similar laws in other countries led to the establishment of companies, industry continued to be dominated by sole proprietors and closely held companies for most of the later half of the 19th Century. The implication of companies being so tightly held was that because the interests of shareholders and management were closely aligned, management could generally be relied on to act in the best interest of a company's shareholders. This alignment meant that management had enormous flexibility as to how the company would be managed.

Ownership of American industry was transformed over the first 30 years of the 20th Century, so that companies controlled the majority of America's business wealth and were increasingly widely held with ownership and management in separate hands (O'Kelley 2006). The impact of this transformation was that the interests of management were no longer aligned with those of shareholders and laws were required that clarified the rights of shareholders and the obligations of management.

Modern company law is a product of this evolution. It recognises that shareholders have chosen to provide capital to the corporation knowing that they are required "to submit to management's judgement as to what is in the best interests of the corporation including whether and what interests to pay a dividend" (O'Kelley 2006, p.762).

The modern company's investors are seeking a return on their investment that is commensurate with the inherent risk of that investment. They are likely to have diversified their investment risk across many companies and to have no interest in personally overseeing the detailed activities of any company, and instead to rely on capital markets to efficiently price a company's securities and to thus ensure that their price reflects the risks the investor is taking (Fama 1980).

If markets are assumed to be efficient in the long term, the pricing of a company's shares will depend on its current profitability and the market's expectations of future profitability. Management's objective then is to protect current profitability and to grow future profitability.

The protection and growth of profitability depends on a company's ongoing competitiveness and the attractiveness of the markets in which it chooses to compete. Management's challenge is to ensure that the company is competing in attractive markets where it has competitive advantage. If required, management must raise capital to fund new technology or growth.

In the years following World War II, pent up demand meant that there was more demand than could be met by suppliers. In this environment, management success appears to have depended on its ability to manage production.

Since that time, the ongoing development of capital markets has led to increased availability of funding for new opportunities by existing companies and the establishment of new competitors often with new business models or innovative technologies.

A consequence of this availability of funding has been an accelerated pace of change and a decrease in the life expectancy of companies as is shown by the decrease in the average time that companies are members of the S&P 500 from 65 years in the 1920s and 1930s, to 10 years in 1998 (Foster and Kaplan 2001b).

Foster and Kaplan observed “the fundamental concepts of operational excellence are inappropriate for a firm seeking to evolve at the pace and scale of the markets.” They argued that the challenge for management is how to provide returns that exceed returns earned by the market as a whole: “The management philosophies and control processes based on the assumption of continuity only deaden corporations to the vital and constant need to embrace the forces of what Joseph Schumpeter called ‘creative destruction’ and to change at the pace and scale of the capital markets” (Foster and Kaplan 2001a, p.41).

The observation that firms should embrace creative destruction to keep up with the pace of modern markets is a recognition that firms need to incorporate entrepreneurship in their management. The field of corporate entrepreneurship has been developed in response to this suggestion.

THE BOARD

The board of a company is comprised of individual directors who are appointed by shareholders in accordance with the provisions of the appropriate company laws and the constitution of the particular company. Once elected a director’s responsibilities are defined by company law and the constitution of the company.

However, while the company law and a corporation’s constitution provide legal obligations for a director’s behaviour, they are insufficient to fully define the directors’ roles and how a board influences a company’s performance.

After exploring this issue, Zahra & Pearce (1989) identified four distinct theoretical perspectives that have guided research as to a board’s role:

- i) legalistic – whereby boards adhere to their legally mandated responsibilities,
- ii) resource dependent – whereby directors provide access to contacts and resources,
- iii) political – whereby directors serve to ensure ongoing capitalist control of institutions, and
- iv) agency theory – whereby boards seek to maximise shareholder wealth.

Zahra & Pearce (1989) analysed these perspectives and identified three important board roles that are common to these perspectives with different levels of relevance to each: service, strategy and control. Their review of the empirical research on the relationship between these three roles and company performance, found that it had been ‘limited in scope,’ ‘based on convenience samples,’ and had been ‘inconsistent in its operationalization of board variables.’ As well, the bulk of the research focused on direct associations between board attributes and company performance while ignoring indirect paths.

In response to these deficiencies Zahra & Pearce (1989) proposed an integrative model, based on a synthesis of past research, that links four interrelated board attributes, *composition, characteristics, structure and process*, with board roles, and ultimately company financial performance. They identified a large number of studies of the relationship between these attributes and company performance that had been completed over the previous 25 years and noted that these studies generally focus on direct associations between a single attribute and on the financial component of company performance and that the findings of these studies are often contradictory. Zahra and Pearce observed that

- Studies on board composition were mixed as to its impact on financial performance but suggest it has a major impact on board characteristics.
- Board characteristics associated with director backgrounds are associated with company performance while those associated with the collective personality of the board are not addressed
- Studies exploring board structure indicate that it is potentially an important indicator of performance
- Research about board process suggest it has an impact on company performance, however difficulties in obtaining board access limit its validity.

In summary, Zahra and Pearce’s research suggests a direct link between specific board attributes and individual director traits with financial performance while acknowledging the need for further research on both the direct and indirect effects of board attributes. It is silent on the need for work that explores the impact of directors as a group, that is, the collective ‘personality’ of the board.

CORPORATE ENTREPRENEURSHIP

Schumpeter (2000) in the early 20th Century recognised the concept of corporate entrepreneurship and described how a 'dependent employee' could adopt the role of the independent entrepreneur.

While Schumpeter provided a workable model for corporate entrepreneurship, it ignored the reality that corporate entrepreneurship often requires the involvement of a large number of actors, and its success depends in large part on organizational issues. As Miller (1983, p.770) observed, 'what is most important is not who is the critical actor, but the *process* of entrepreneurship itself and the organizational factors which foster and impede it.'

Burgelman (1983) observed that firms need diversity to maintain their viability and this requires an experimentation-and-selection approach which is best done by middle managers. Top management's role is then to manage the level and rate of change as opposed to the specific content of entrepreneurial activity.

Sharma and Chrisman (1999, p.18) proposed the following definitions that highlight this difference between *independent entrepreneurship* and *corporate entrepreneurship*:

- *Independent entrepreneurship* is the process whereby an individual or group of individuals, acting independently of any association with an existing organization create a new organization.
- *Corporate entrepreneurship* is the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization.

As the field of corporate entrepreneurship has evolved, the term has been attached to a number of distinct types of organizational behaviour. These can be classified into four schools (Birkinshaw 2003). The first two of these behaviours, Corporate Venturing, where a separate division is established and Intrapreneurship, where middle managers champion new innovations, seek to replicate the environment found in start-up companies where hands-on managers have the authority and incentives to behave entrepreneurially.

The second group of corporate entrepreneurship behaviours, relate to promoting a firm wide culture that is conducive to entrepreneurship or the adoption of systems that foster entrepreneurial business practices.

Although these and other typologies are useful for describing the various dimensions of entrepreneurial process, they have not led to any widely held consensus regarding how to characterise corporate entrepreneurship. The absence of such consensus has impeded research towards building and testing broader theories of entrepreneurship and has made it difficult to investigate the relationship of entrepreneurship to performance (Lumpkin and Dess 1996).

Zahra and Covin (1995, p.46) suggested that academic interest in corporate entrepreneurship is a consequence of "its potential usefulness as a means for renewing established organizations and increasing their ability to compete," and cited Colvin and Slevin (1991, p.19) who suggested that "the growing interest in the study of entrepreneurship is a response not only to the belief that entrepreneurial activity will result in positive macroeconomic outcomes but to the belief that such activity can lead to improved performance in established organizations."

A longitudinal study by Zahra and Covin(1995) explored the link between three characteristics of entrepreneurship, innovation, risk-taking and pro-activeness, that were identified by Miller(1983), and corporate entrepreneurship using data collected between 1983 and 1990. The study showed a positive association between these characteristics and company financial performance, and that the strength of the relationship tends to grow over time. This tendency led them to note "that managers should adopt a long-term perspective in developing, managing, and evaluating corporate entrepreneurship," and that "without such managerial support, corporate entrepreneurship activities may be discontinued long before they would reasonable be expected to financially benefit the organization" (Zahra and Covin 1995, p.55).

Lumpkin and Dess (1996) proposed a construct they labelled Entrepreneurial Orientation comprising the three characteristics identified by Miller plus autonomy and competitive aggressiveness. They note that entrepreneurial orientation does not constitute entrepreneurship, but rather describes how corporate entrepreneurship takes place and that some or all of these characteristics will be present when corporate entrepreneurship occurs.

Lumpkin and Dess (1996, p.153) also highlighted the multi-dimensional nature of entrepreneurial performance in that "entrepreneurial activity or processes may, at times, lead to favourable outcomes on one performance dimension and unfavourable outcomes on a different performance dimension". This observation shows why it is difficult to assess the impact of entrepreneurial initiatives or processes on the performance of a company.

A meta-analysis of 37 studies by Rauch et al.(2004) expanded on Zahra and Covin's findings. The study explored the relationship between the five dimensions of entrepreneurial orientation and

performance. The meta-analysis supports the proposition that the characteristics of entrepreneurial orientation vary independently and positively with performance, with innovativeness, pro-activeness and competitive aggressiveness having significant relationships, and risk-taking and competitive aggressiveness having smaller ones. The analysis also showed that the entrepreneurial orientation construct is positively correlated with performance.

Ireland et al. (2006a) proposed that a firm's entrepreneurship can be characterized by its *entrepreneurial intensity*, which is an assessment of the frequency of a firm's entrepreneurial initiatives and the degree of entrepreneurship. The frequency of entrepreneurship refers to the number of initiatives a company is pursuing, while the degree of entrepreneurship refers to the three dimensions of entrepreneurial orientation identified by Miller(1983), that is innovativeness, riskiness and pro-activeness.

Ireland et al. (2006b, p.24) observed "that entrepreneurial intensity tends to be associated with higher levels of performance (using both financial and non-financial performance measures), and this relativity appears to be strongest for firms competing in highly turbulent industries." They also note that norms for entrepreneurial intensity differ across industries.

Ireland et al. (2006b) proposes that a firm's entrepreneurial intensity in turn, is a consequence of its *corporate entrepreneurship climate*, an assessment of whether a firm's internal work environment supports entrepreneurial behaviour and the use of a corporate entrepreneurial strategy. His work shows that corporate entrepreneurship climate has five antecedents: (1) willingness of top-level managers to facilitate and promote entrepreneurial behaviour, (2) commitment of top-level managers to tolerate failure, (3) systems that reinforce entrepreneurship, (4) availability of time for pursuit of innovations, (5) clear expectations of staff.

Bouchard(2002) observed that top management interest has been reinforced by examples of "spontaneous corporate entrepreneurs" creating new ventures within established organizations. This leads to her suggestion "If unaided individuals can make such a difference, trained and well supported ones should be able to generate a constant and significant flow of additional revenues." (Bouchard 2002, p.4)

However, despite considerable evidence as to the value of corporate entrepreneurship and an environment where companies face increasingly competitive markets as is shown by the decline in the life expectancy of companies, entrepreneurship initiatives in many cases remain experiments that are "particularly exposed to management turnover and economic downturns."(Bouchard 2002, p.2)

ENTREPRENEURIAL POTENTIAL & INTENTION

Entrepreneurial Potential is a theoretical construct developed by Krueger to identify the supply of potential entrepreneurs within an environment who will surface and take the initiative when a 'personally attractive opportunity presents itself' (Krueger Jr. and Brazeal 1994, p.91).

Krueger and Brazeal (1994) proposed that entrepreneurial potential is required for entrepreneurial intention and that as entrepreneurship is a planned intentional behaviour, intention is a necessary precursor. Their construct of entrepreneurial potential is built on overlapping models of behaviour proposed by the psychologist Icek Ajzen and the sociologist Albert Shapero.

- 1) Ajzen's (1991) Theory of Planned Behaviour (TPB) showed that three attitudes predict intentions: attitude towards the act, social norms and perceived feasibility.
- 2) Shapero's (cited in Krueger Jr. and Brazeal 1994) Model of the Entrepreneurial Event proposes that decision makers will react entrepreneurially when faced with some sort of displacement if they regard entrepreneurial behaviour as credible and they have a propensity to act.

Krueger and Brazeal propose that Entrepreneurial Potential requires that potential entrepreneurs regard entrepreneurial behaviour as credible and have a propensity to act. Entrepreneurial credibility in turn requires that the potential entrepreneur regards entrepreneurship as both desirable and feasible. A potential entrepreneur will perceive that entrepreneurship is desirable, if the act in itself is personally desirable to that person and if it is supported by that person's perception of social norms. An act will be considered feasible if the potential entrepreneur perceives that she or he is capable of completing the required tasks.

While potential entrepreneur's propensity to act was conceptualised by Shapero as a stable personality characteristic, Krueger and Brazeal's research shows that individuals can be trained to behave more autonomously if they are taught self-management and how to cope with adversity, and if they are rewarded for taking initiative.

Krueger and Brazeal (1994) also propose that potential entrepreneurs require a relevant precipitating event if they are to choose an entrepreneurial course of action.

BOARD INFLUENCE ON CORPORATE ENTREPRENEURSHIP

Companies exist as a vehicle for funding ventures that have resource requirements that are beyond the means of individual investors. Shareholders invest in companies with the expectation of returns that are in excess of what can be obtained investing in the market as a whole.

The ongoing viability of companies will generally depend on their rejuvenating themselves.

Schumpeter (1962) described the process of corporate rejuvenation as 'creative destruction.'

The Board of a company has ultimate responsibility for its management. While there is a diversity of opinions as to a board's priorities, there is consensus that the board is ultimately concerned with company performance and consequently returns to shareholders.

While research has explored the impact of a range of specific board attributes and individual director traits on company performance, there is a paucity of research that explores how a board as a group with its own personality impacts company performance. That is, by what mechanisms do the attitudes of the board as a group impact company performance.

Corporate entrepreneurship is comprised of a range of behaviours whereby the practices used by independent entrepreneurs are emulated in a corporate environment. Research has shown strong correlation between corporate entrepreneurship and corporate performance (Zahra 1991). Despite this evidence, many companies are reluctant to attempt corporate entrepreneurship, while others prematurely deem initiatives to be unsuccessful and abandon them (Bouchard 2002).

The entrepreneurial potential construct links entrepreneurial intention to a potential entrepreneur's perception that entrepreneurship is desirable and feasible, with the potential entrepreneur's propensity to act, and the occurrence of a precipitating event. The application of this construct to a corporate environment links top management signals and corporate culture to an entrepreneur's perception of desirability and top management support to an entrepreneur's perception of feasibility. This research explores how the board of a company influences the entrepreneurial intention of potential corporate entrepreneurs.

METHODOLOGY

A qualitative study was designed to examine how the board of directors of a company influences the entrepreneurial intention of that company. A qualitative study was chosen because of the absence of existing theory that could be used to develop a suitable model.

The study aim was to determine how directors influence entrepreneurial intention of companies. It focused on the Australian banking sector for three reasons. Firstly, companies in the sector are all publicly listed, widely reported and analysed. Second, the authors anticipated being able to gain access to Directors. Third, the banks chosen were similar in terms of their scale, the markets they served and the products they offered.

The authors targeted the five largest banks and a smaller rapidly growing bank for the sample. They recognised that if they were to get what Kakabadse (2006) described as "privileged, inside information," they would require the support of each of the sample companies' Chairmen if participants were to engage with the interview process.

For each bank, the Chairman, or a former Chairman was approached via a third party and asked to participate. These Chairman either agreed to participate or for a former Chairman to participate. Subsequently, Chairman nominated other members of their Board that the authors could approach. The data collected from each bank is treated as a single case study. Participants were interviewed on the basis that their contributions would not be attributed to them as individuals or to the companies they represent. Each participant was sent a briefing note in advance of the interview outlining these arrangements and the topics to be covered. To ensure confidentiality, some of the data has been 'generalised.'

This study comprises four cases:

- Bank 1 is one of the five largest Australian commercial banks. Three of its Directors were interviewed comprising the current Chairman and two other Directors.
- Bank 2 is another of the five largest Australian commercial banks. Three of its Directors were interviewed comprising the Chairman and two Directors.
- Bank 4 is also one of the five largest Australian commercial banks. Two former Directors were interviewed comprising an Ex-Chairman and a Director who served at the same time as the Chairman.
- Bank 5 is a second tier Australian commercial bank. Five directors were interviewed comprising the Chairman, Deputy Chairman and the Managing Director and two other Directors.

The participants were asked to reflect on the extent of corporate entrepreneurship and innovation at their Bank; the views and role of the Board and management with respect to corporate

entrepreneurship and innovation; the extent to which the company has an entrepreneurial culture and the origins of the that culture.

The analytical process reflects that used by Kakabadse et al. (2006). The interviews were digitally recorded and transcribed. The transcriptions were then analysed and coded using N-Vivo to identify themes and frameworks. These frameworks were amended as additional transcripts were processed. This process led to the framework consisting of nodes and relationships that is presented in Figure 1. The transcriptions were then recoded using this framework to identify the characteristics of the nodes for each case-study. These are summarised in Table 1. The relationships between the characteristics identified were compared for each case. The analysis required grounded theorising since through reflecting on the attitudes and perceptions of the different boards it became possible to identify their relationship with the intentions of the company’s management.

RESULTS AND ANALYSIS

Theoretical Model

A theoretical model linking specific board characteristics and corporate entrepreneurship was developed using Krueger’s model as a starting point. The model was then tested and revised using the interview data. The testing and revision sequence was repeated five times. The model that has been developed by this process is presented in Figure 1.

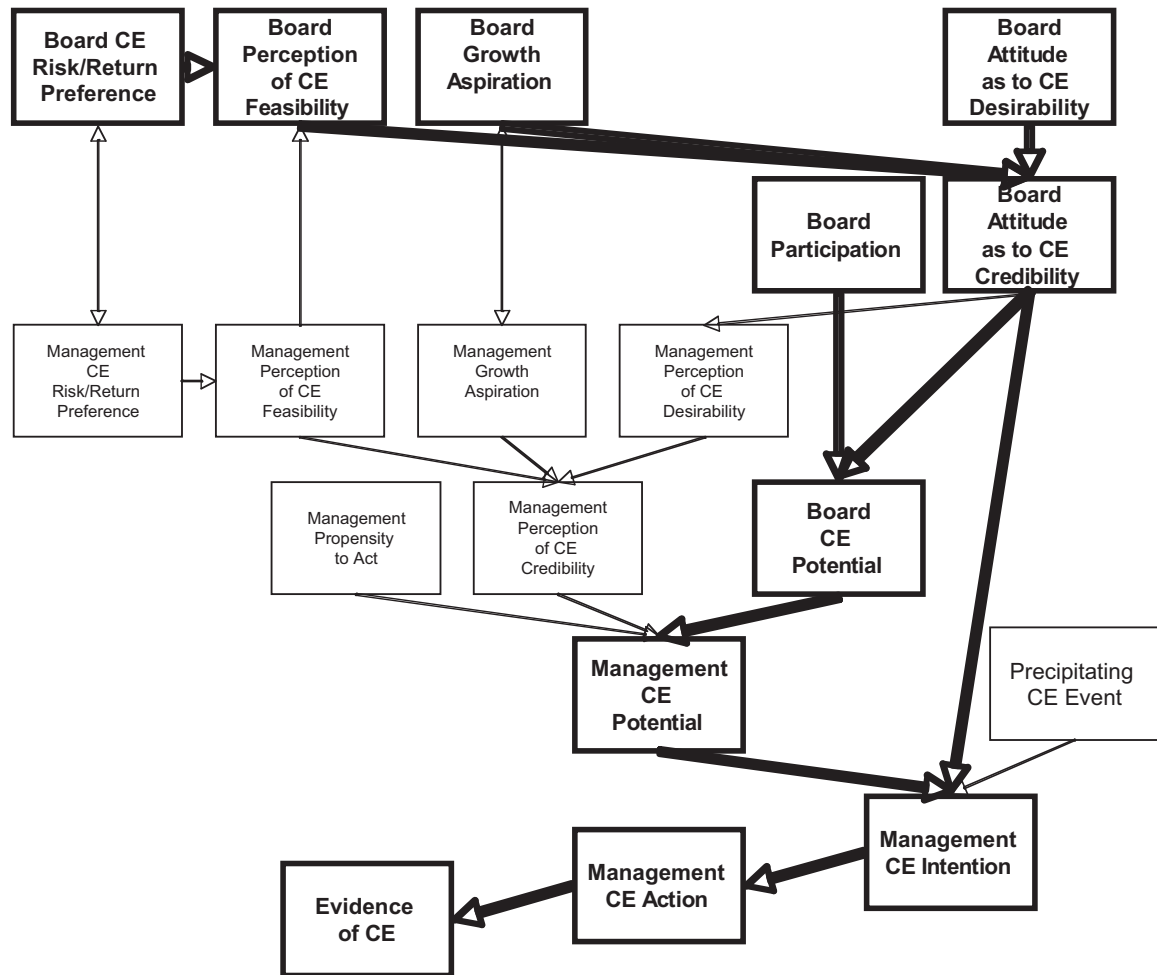


FIGURE 1 – BOARD INFLUENCE ON CORPORATE ENTREPRENEURSHIP

The model links seven board and seven management characteristics with management entrepreneurial intention. These characteristics are described as follows:

Board Corporate Entrepreneurship Risk/Return Preference is an assessment of a Board’s risk preference for the company. This is a group preference and may differ from the individual risk preferences of some, or even all of the Directors. The Board’s preference may be influenced by the views of management and similarly may influence the views of management.

Board Perception of Corporate Entrepreneurship Feasibility is a Board's assessment as to the capability of the company to implement an entrepreneurial strategy. Its view may be influenced by management's assessment of its own capabilities.

Board Growth Aspiration is an assessment of a Board's objective as to how fast the company should grow. This objective will both influence and be influenced by the management team's growth objective. The company's growth objective is a key precursor to its budgets and strategic plans.

Board Attitude as to Desirability of Corporate Entrepreneurship is an assessment as to whether a Board believes that Corporate Entrepreneurship will be beneficial both for the Company's shareholders and for the Board itself.

Board Attitude as to Corporate Entrepreneurship Credibility is modelled on Krueger and Brazeal's assessment of whether an individual regards entrepreneurship as a credible strategy. In the case of a Board, Corporate Entrepreneurship will be regarded as credible if it is viewed as feasible for the company, the Board has growth aspirations for the Company and the Board believes that the Corporate Entrepreneurship will be beneficial for the Company and the Board.

Board Participation is an assessment of the extent to which the Board is involved in the management of the Company.

Board Entrepreneurial Potential is an assessment of the extent to which a Board promotes Corporate Entrepreneurship activities by management. It is a function of the extent of Board Participation and the Board's Attitude as to Corporate Entrepreneurship Credibility. Board Entrepreneurial Potential will be high if a Board regards Corporate Entrepreneurship as credible and is actively involved in the management of the organization.

Management Corporate Entrepreneurship Risk/Return Preference is an assessment of the risk preference that management adopts when developing strategy for the company.

Management Perception of Corporate Entrepreneurship Feasibility reflects the self-efficacy of the management team's leadership.

Management Growth Aspiration is an assessment of the management team's objective as to how fast an organization should grow.

Management Perception of Corporate Entrepreneurship Desirability is an assessment as to whether the members of the management team believes that Corporate Entrepreneurship will be beneficial both for the organization as a whole and for the management team itself.

Management Perception as to Corporate Entrepreneurship Credibility is, like its counterpart *Board Attitude as to Corporate Entrepreneurship Credibility*, modelled on Krueger and Brazeal's assessment of whether an individual regards entrepreneurship as a credible strategy. In the case of management, Corporate Entrepreneurship will be perceived as credible if management perceives it as feasible for the organization, if management has growth aspirations for the organization and if management perceives that Corporate Entrepreneurship will be beneficial for the organization and the management team.

Management Propensity to Act is an assessment of a management team's willingness to act when presented with an opportunity.

Management Corporate Entrepreneurship Potential is an assessment of the extent to which a management team when faced with a precipitating event will take advantage of the opportunity presented.

Management Corporate Entrepreneurship Intention represents a conscious decision by management to pursue an entrepreneurial opportunity.

Management Corporate Entrepreneurship Action is the likely consequence of *Management Corporate Entrepreneurship Intention*.

Application of Model to Data

Director interviews at each of the banks constitute separate case studies. These interviews were analysed to allow the above characteristics of that Bank's Board to be determined. The results of this analysis are presented in Table 1.

	Risk/Reward Preference	Perception of CE Feasibility	Attitude as to CE Desirability	Growth Aspiration	Attitude as to CE Credibility	Participation	Board Entrepreneurial Potential	Management Entrepreneurial Intention	Corporate Entrepreneurship
Bank 1	Minimise	Concern	Unnecessary	Aggressive	Low	React	Low	Limited	Minimal
Bank 2	Reduce	Reject	Irrelevant	Modest	Low	Influence	Low	Limited	Immaterial
Bank 4	Manage	Positive	Important	Aggressive	High	Influence	High	Moderate	Significant
Bank 5	Select	Confident	Necessary	Very Aggressive	Very High	Engaged	Very High	Aggressive	Extensive

TABLE 1 – BOARD CHARACTERISTICS AND CORPORATE ENTREPRENEURSHIP

Table 1 summarises the observations from four case studies each focusing on a single bank. The description of the perception or attitude is drawn from the content of the interviews comprising a case. A sample of the relevant content of each case is presented below.

Case 1 – Bank 1

The Directors of Bank seek to minimise the company's exposure to risk.

Nowadays, if you sit around a Board table, the first think a Director thinks about is 'Am I exposed here?' I can tell you that it happens on all Boards. Even I am guilty of it. (Chairman – Bank 1)

So we worry much more about the downside than the upside. (Director 1 – Bank 1)

The Directors of Bank 1 believe there are few opportunities for Corporate Entrepreneurship and that the Bank's management is not capable of exploiting those,

The windows of opportunity, to be different in an oligopoly, virtually don't open. (Director 1 – Bank 1)

People who have been brought up in working in banks for the last 20 years, it's not in their nature to be quick to innovation. (Director 2 – Bank 1)

and believe that entrepreneurship is not needed to achieve the bank's growth objective.

I think if you are smaller in any industry, particularly in very mature industries, you've got to be far more entrepreneurial than if you've got this natural momentum that's you, that sort of drives you on. (Director 2 – Bank 1)

The Board of Bank 1 aims to grow the Bank's earnings per share by 10% per annum,

The Board will say, "That's our objective, to achieve at least 10% EPS growth a year." (Director 2 – Bank 1)

but, does not regard Corporate Entrepreneurship as credible as they do not regard entrepreneurship as either desirable or feasible:

We've looked at non-organic growth, and none of it seems to make sense at the present time. (Director 2 – Bank 1)

Directors of Bank 1 described the role of the Board as being to review management's decisions rather than to lead management:

I'm a believer that Boards are the final check or arbiter. I don't think Boards can actually show the strategic leadership unless Boards are pretty poor. (Chairman – Bank 1)
The Board will say, "That's our objective, to achieve at least 10% EPS growth a year," and management will put together a plan as to how they are going to do that. (Director 2 – Bank 1)

The entrepreneurial potential of Bank 1's Board can be classified as low as the Board does not regard entrepreneurship as a credible strategy.

A review of public data suggests that Bank 1 has engaged in minimal entrepreneurship over the last five years. During this time, the strategic focus of Bank 1 has been operational. Management has aimed to grow the bank by improving the service it offers and marketing the bank as offering superior service. Over this period, the bank's growth has reflected the overall growth in credit.

This classification is consistent with the view of the Chairman:

In my definition of entrepreneurial, I would have thought they're not too entrepreneurial. . . . We've got organic growth and we are absolutely dedicated to making organic growth work and pushing it. (Chairman – Bank 1)

Case 2 – Bank 2

Bank 2's Directors are keen to reduce the bank's risk profile:

Since [the banking stress of the early 90s], [the Bank] didn't change its culture, but it got more interested in risk management. (Director 1 – Bank 2)
[A consulting firm] was employed by [Bank 2] to help [the Chief Executive] change the culture of the bank, and in particular to reduce costs, and to increase growth, and to reduce risk. (Director 1 – Bank 2)

The Chairman of Bank 2 believes that Innovation and Entrepreneurship is not feasible for Bank 2:

Now, somebody else might do it well, but we've got three or four examples, and our people don't come up with 'infrastructure bonds.' Macquarie's come up it. We'd be delighted if they did, but they don't. It's not going to happen. (Chairman – Bank 2)

Another Director described the bank's entrepreneurial initiatives as constituting 'little bites.'

What we're looking at is, in little bites that if they go bad don't hurt us, is getting into [another geographic market]. We've got a little bit in [sub-market a], a little bit in [sub-market b], and we've now got a little bit in [sub-market c]. (Director 1 – Bank 2)

The Board of Bank 2 does not regard corporate entrepreneurship as desirable for Bank 2 as it is not relevant to the banking sector and is not consistent with their desire to focus.

So, my own view is that this is very much a management thing, and then it depends on culture of the management, their attitude, their experience, and also whether they are in an industry that rewards innovation and has a lot of innovation, such as research or pharmaceuticals, medical areas or whether it's a fairly established industry where you are probably not going to be an innovator. (Chairman, Bank 2)
We've done a lot of getting out of things and becoming more of a traditional commercial banker. (Director 1, Bank 2)

The Board of Bank 2 aims the bank to match its competitors and grow with the system:

You don't grow with the economy. In mortgages you grow with housing credit. Housing credit has been growing at 15% per annum for the last three years. Total credit has been growing by a lot more than the economy. (Chairman – Bank 2)
There isn't [a growth target]. Well there is, formally [the chairman] puts out a growth target each year, of the order of eight percent. That's the public number.
The system is growing at about that rate. There isn't a growth target as such. (Director 1 – Director 2)

The Board of Bank 2 does not regard corporate entrepreneurship as credible for the Bank as their growth objectives are conservative and they do not regard corporate entrepreneurship as either desirable or feasible.

The Board of Bank 2 sees its role as to influence the development of strategy:

If the Board has a good idea, from left field, it really can't run with it unless management want to run with it, because the Board can't do things. It doesn't manage. (Chairman – Bank 2)

Board Entrepreneurial Potential of Bank 2 is low. The Board does not regard corporate entrepreneurship as credible for Bank 2 as they do not regard entrepreneurship as desirable for banks in general or feasible for Bank 2.

Actions taken by Bank 2's management reflects the Board's attitudes. The Bank's systematic risk has been decreased while it has focused on its core businesses.

The risk profile has come right down. We got out of [a region] and [a market segment] by and large. We have reduced single customer concentration limits and diversified the portfolio. We have moved, not away from [a market segment], to get much bigger in [another market segment], which is much lower risk, [specific products in preferred segment] as opposed [products in other segment], that's where you lose your money. We have totally changed the profile of the bank. (Director 1 – Bank 1)

Public data is consistent with the views of this Director and shows management's focus has been execution as opposed to entrepreneurship.

Case 3 – Bank 4

The Former Chairman of Bank 4 described the Board's focus as being the management of risk as opposed to its avoidance. He stated that a desirable characteristic of Board members is that they both understand and can manage risk:

We want people who had been out there, people who have been there and done that, and understand risk, and we try to get people with a very broad spread of industries. (Former Chairman – Bank 4)

These views were shared by the Former Director:

Banks are very much credit managers and credit risk. The credit side of the bank is very powerful in determining what the bank does. Surely the Directors agree with all that. They set the appetite for risk. . (Former Director – Bank 4)

The Board of Bank 4 was confident that the bank could grow by entering new markets and by bringing new products to those markets,

We thought that we could bring value by bringing our systems and approaches from [our existing market] into [businesses targeted for acquisition]. They had been poorly managed, they had not moved with the times in terms of their thinking about their product offerings and the way they service their customers. We also saw them as a base to get ourselves some experience on a relatively small scale; to get to understand the realities of the market and then opportunistically build. (Former Chairman – Bank 4)

The Board of Bank 4 aimed for the Bank's earnings to grow by at least 10% per year,

If we thought that growth was slowing below 10% per annum growth in earnings, then we would have said "Hey, let's have a look at why that is." (Former Chairman – Bank 4)

The Board of Bank 4 sees Entrepreneurship as key to achieving its corporate aims. They see it as desirable, feasible and as necessary to achieve the Board's aggressive growth targets. The role of the Board at Bank 4 is to appoint a Chief Executive, to set growth targets, to supervise the risk profile and to then respond to management's recommendations.

The Directors have to make decisions. They have to make judgments for all of the shareholders. They have to apply their individual thought processes and yet, the Board appoints a Chief Executive to be at the head of a management group that thrashes out where it wants to go and then comes to the Board and says - this is what we've decided to recommend to you. (Former Chairman – Bank 4)

The Board of 'Bank 4' views risk as something that is to be managed, has ambitious growth targets, perceives that the organization has the skills required to undertake entrepreneurial strategies and believes that entrepreneurship is desirable if it is to achieve its growth objectives. This leads to the proposition that the Board Entrepreneurial Potential is high.

While the Former Chairman and Former Director were its Board, Bank 4 undertook many initiatives that can be described as entrepreneurial. These include:

- Two entries into major new businesses via acquisition. One of these is considered successful while the other was not and led to a strategic retreat.
- A large number of investments in start-up businesses. The majority of these were unsuccessful.
- Entry into three new regions. All led to the development of profitable businesses. Two have evolved as bases for growth, while one was sold.
- Several new business models have been piloted of which one of these is being adopted widely.

Case 4 – Bank 5

The Board of Bank 5 recognises that its strategy requires it to be entrepreneurial and to accept risk, and seeks to limit the banks exposure by managing projects incrementally. That is, new business concepts are tested and proven before large investments are made.

The board said 'Yes. This is a good, this is right. We understand where it fits. We want this to be tested in a difficult environment, because, you know, this is our reputation and rightfully so, and how much do we have to spend?'

Well, we minimized the amount of money we had to spend to get the first few sites, the first initial sites up. So we minimized the risk. (Director 1 – Bank 5)

The Board has supervised the Bank's past entrepreneurial success and therefore is confident of its ability to be entrepreneurial. Directors are concerned with the selection of entrepreneurial projects, rather than with issues about the feasibility of entrepreneurship.

So each year we had a block of capital called expenses. We had a block of capital over and above our operating costs that we would spend in growing one of those elements of the business. (Managing Director – Bank 5)

They see corporate entrepreneurship as an integral part of their strategy.

Any business you've got to experiment. You'll have some wins and you'll have some losses. As long as you cut the losses and let the profits run. (Director 3 – Bank 5)

The Board of Bank 5 has very aggressive growth aspirations:

[Bank 5] has been growing at over 20%, or at about 20% for the last, I don't know how many years. [Q: As a Board, is that your objective] Yes. □ Keep growing at this rate. We know it's way, way above everything because we are gaining market share, but we also have a concept. (Chairman – Bank 5)

The Board of 'Bank 5' clearly regards Corporate Entrepreneurship as a credible strategy as they see it as both feasible and desirable and regard it as a key component of their growth strategy. This view appears to be a consequence of the bank's record of successful entrepreneurship.

The Board of 'Bank 5' participates in management's decision-making regarding strategy.

It's not hands on by any means, but we certainly knew what was going on.

So how involved was it?

We were certainly over-sighting it and keen to see how it was progressing. (Director 1 – Bank 5)

I think it's probably coming from the top down. Partly the Board, partly the C.E.O. (Director 3 – Bank 5)

The Board of Bank 5 is prepared to accept entrepreneurial risk. This is illustrated by the following example that describes how the Board was prepared to accept an entrepreneurial initiative proposed by the Managing Director even though individual Directors had doubts about its viability:

I didn't support it because I'd seen other [businesses of the same genre], and I wasn't sure what we were achieving by it all and I could see it was going to be a public and time consuming episode.

Why would we? The debate was had.

[The Chief Executive] thought strongly about it. He wanted to get involved in it. People supported him. It's been one of those things that everyone knows about. It was a relatively minor investment that we ended up making. It's value has somewhat been protected by the thing with [a complementary business]. It's actually not looking too bad. (Director 2 – Bank 5)

Bank 5 has a diverse and extensive track record of corporate entrepreneurship both before and since becoming a bank. It has led the introduction of what are now common products and processes to the Australian finance industry. It has achieved a high growth through the adoption of new business models, development of new products and entry into new markets. The bank has teams of people working on new projects in its incubator section and is proud of its entrepreneurial success.

Analysis

Table 1 highlights the significant differences in the perceptions and attitudes of the Boards in the sample and allows the following associations between these and Entrepreneurial Intentions and Entrepreneurial Actions to be identified:

- 1) Corporate Entrepreneurship is positively associated with Boards that
 - seek to manage rather than reduce or minimise Company risk,
 - perceive that Corporate Entrepreneurship is feasible for the company,
 - believe that Corporate Entrepreneurship is desirable for the Board and the Company,
 - perceive that Corporate Entrepreneurship is credible for the company, and
 - are more engaged in the management of the company.
- 2) Corporate Entrepreneurship requires but is not a consequence of a Board's growth aspirations.
- 3) The construct 'Board Entrepreneurial Potential' is associated with Corporate Entrepreneurship

While the research shows an association between certain characteristics of the Board and corporate entrepreneurship, it does not show whether the characteristics of the board are a precursor to corporate entrepreneurship or a consequence of it. This may be a corollary of Zahra and Colvin's observation that they could not show whether superior financial performance was a consequence of corporate entrepreneurship or vice versa.

In many cases, which comes first, the chicken or the egg, may be a less important question than whether the Board develops the perceptions and adopts the attitudes required for corporate entrepreneurship to continue. In a newly established company, the Board may have little involvement in the management of the company. In a mature company that is seeking to become more entrepreneurial, a management team might initiate entrepreneurship of its accord, it is likely to require the support of the Board if such experiments are to continue.

The applicability of this research by its nature is limited in that it relies on a single interviewer, a small number of Directors serving on the Boards of companies in a single industry segment in a single country. While work of a quantitative nature would ideally be undertaken to confirm our findings, the authors believe that such work may not be practical. Instead, the authors propose that the current work be extended to include a large number of directors from the banking industry, followed by cases from other industries and other regions.

IMPLICATIONS

This research shows that entrepreneurship in large banks is associated with the preferences and attitudes of their Boards. The implication of this is if management is to act entrepreneurially, the attitudes and perceptions of the Board must be changed either before or as a consequence of management's actions. If these cannot be changed, any entrepreneurial actions either will not be undertaken by management or will be short term. A catalyst for a change in the Board's attitudes and preferences may be the results of previous entrepreneurial initiatives by management. The evidence shows that Board Entrepreneurial Potential is a valid instrument for measuring a Board's attitudes and preferences and as such may be a valid predictor of a company's ability to undertake entrepreneurial initiatives.

An increase in Board Entrepreneurial Potential is required if management is to act more entrepreneurially. If it is not possible to increase this, a change in a company's Board, perhaps via a change in ownership may be necessary before a company can implement entrepreneurial initiatives.

CONCLUSIONS

This project aimed to address a scarcity of research that explores how a Board of Directors influences a company's corporate entrepreneurship.

A model based on Krueger's construct of Entrepreneurial Potential is constructed and used to show a positive association between the characteristics defined in the model and corporate entrepreneurship. The construct of Board Entrepreneurial Potential is proposed as an indicator of a company's ability to act entrepreneurially.

Further work is proposed to expand the applicability of the Board Entrepreneurial Potential construct and to explore the origins and evolution of a Board's entrepreneurial potential.

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