Assessing the impact of Board of Directors on corporate entrepreneurship of large public companies

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Principal Topic

While many researchers have proposed strategies for corporate entrepreneurship (CE) success, there is a lack of published research as to why CE succeeds or fails at large public companies. This paper explores one aspect of this issue, namely how a company's Board of Director's impacts its CE. Many academics have advocated CE as the driver of corporate innovation and growth including Covin and Slevin (1991), Zahra (1993), Lumpkin and Dess, 1996, and Birkinshaw (2003). The business community increasingly accepts the importance of CE. For example, Stewart (2006) reported the opinion of Jeff Immelt, the chairman and CEO of General Electric, that whereas the focus of his predecessor, Jack Welch, was acquisitions and improvements in productivity, in the future the market would reward organic growth driven by innovation. At the same time, the literature also identifies a number of large companies that have been unsuccessful in their CE efforts. For example, O'Reilly and Tushman (2004) identify Kodak and Boeing as examples of companies that have failed in their attempts to adapt to market changes. The literature appears to be silent as to why CE experiments are successful at some firms and unsuccessful at others. While many authors, including Pinchot (1985) and Hamel (2002), have identified conditions required for CE to be successful, their prescriptions appear to be insufficient to ensure a high probability of success. Research is needed to identify the factors that determine the success or failure of CE initiatives. The authors of this paper explore one potential factor, that is: "How do the actions of a firm's Board of Directors impact its corporate entrepreneurship?"

Methodology/Key Propositions

We interviewed senior directors who are boards members at five of the six largest Australian commercial banks and one smaller entrepreneurial bank. The current, or a recent chairman, of each of the banks agreed to participate, and with the assistance of these chairmen, another eight directors were recruited across four of the banks. The sample includes directors who have served on the boards of eight of Australia's ten largest publicly listed companies. The interviews followed a standard protocol that explores the attitudes and role of a company's Board of Directors and the extent of its CE. The directors' views as to the extent of CE at each bank were correlated against historical financial data. The level of CE at each of the organizations is assessed using an approach adopted by Bieto, et al (2005). This involves identifying the presence of the five dimensions of the Entrepreneurial Orientation construct and the existence of entrepreneurial practices shown to measure a company's 'entrepreneurial capacity.' The extent of CE at each bank was also assessed using publicly available data. The interviews were transcribed and then analyzed using computer assisted coding to identify linkages between the statements of directors and the CE of each organization.

Results and Implications

The analysis identifies a relationship, for Australian publicly listed banks, between what a bank's directors describe as the Board's culture and that bank's CE. This culture is seen as developing over a long period primarily in response to the experiences of the board and to a lesser extent in response to the individual experiences of its members. The research shows that directors of large banks value cohesion and for that reason are likely to conform to a prevailing board culture. It suggests that board culture is likely to be slow to change other than when caused by major events in a firm's history including the results of previous CE experiments. The analysis suggests that as Board culture has an impact on the outcome of CE experiments, and is likely to be stable in the absence of major events, historic Board culture is likely to be a determinant of CE success. This may explain the difficulties faced by companies seeking to be more entrepreneurial in situations where historically the culture of a company's Board is not entrepreneurial. The key implication of these findings is that they identify a potential impediment to successful CE. Company leaders that see CE as a source of regeneration or growth may need to develop strategies to achieve Board cultural change if they are to achieve their end aim.

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