A Theoretical Study of Performance Measures in the Strategic and Corporate Entrepreneurship of Firms

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Article history: Received 3 January 2017; Accepted in revised form 25 February 2017; Approved 28 February 2017; Available online 2 March 2017

Abstract

This paper compares performance measures in the corporate and strategic entrepreneurial activities of firms. The paper develops the concepts of strategic entrepreneurship and that of corporate entrepreneurship with the aim of identifying the measures suitable for determining their “end-points” and hence, performance, with respect to the firm’s activities. The paper concludes the performance measures for both entrepreneurial processes need to consider and exploit the salient differences in their operations. When this is done, a “balanced” picture of the firm’s strategic as well as corporate entrepreneurial performance that aligns itself with the dynamic environment, operational processes and stakeholders and such that can enhance continuous improvement will be attainable.

Keywords

Corporate Entrepreneurship; Entrepreneurship; Environment; Performance Measurement; Strategic Entrepreneurship;

Contents

Abstract ........................................................................................................................................ 49
Introduction ..................................................................................................................................... 50
Research Method.......................................................................................................................... 51
The Concept of Strategic Entrepreneurship .................................................................................. 51

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Introduction

Firms in today’s global economy operate in dynamic turbulent environments with increasingly new challenges on consumer demands, opportunities and innovations in the forms of competition (Gosselin and Bauwen, 2006) In particular, Wiklund et al., (2009) opine that firms face increased rivalry or a decrease in the demand for their products in hostile environments. Furthermore, Kuratko and Audretsch, (2009) describe this atmosphere as “….. a new competitive landscape that encompasses increasing risk, decreased the ability to forecast, fluid firm and industry boundaries, new structural forms and an innovative managerial mindset”. The dynamic nature of the environment constantly creates opportunities for firms to create wealth by strategically aligning their strategic competencies with that of the environment (Rauch et al., 2009).

Entrepreneurship has constantly been revealed to be significant at enabling firms to develop and sustain competitive advantages in the face of increasing local and global markets competitiveness (Zahra et al., 2000). Consequently, understanding the relevance and import of the measures of corporate and strategic entrepreneurship is necessary for the effective and efficient creation of firm’s wealth, development of the competitive edge and its sustenance. Also, the performance of these firms is considered critical to the industrialization process of many economies (Ladanu, 2009). Many scholars (Kuratko, 1993; Dess et al., 1999) contend that corporate entrepreneurship is an important growth strategy for firms as well as develop and sustain competitive advantage. In the firm’s pursuit of the competitive edge, strategic entrepreneurship (combining strategic management and entrepreneurship) has been shown, to be significant at enhancing the capacity of firms to survive the dynamic challenges in the environment (Ireland and Webb, 2007; Kuratko, 2009). Strategic and corporate entrepreneurship have important implications for firms in the development and sustenance of competitive advantages. Ogunsiji (2004) explains that organizational resources and inputs are utilized to translate both entrepreneurial activities into the development of distinctive competencies to create wealth and take advantage of the competitiveness developed. The performance or the outcome of the strategic and corporate entrepreneurial activities of firms is, therefore, relevant to both academics and practitioners. With respect to performance, Klein et al., (2013) opine the organization's capabilities are essential for the firm’s entrepreneurial behavior.

From the foregoing and given that strategic and corporate entrepreneurship are important contributors to the firm’s sustainable and competitive creation of wealth, the aim of this paper is to compare the performance measures of both entrepreneurial activities. First, we present a review of relevant literature on strategic and corporate entrepreneurship and then compare the performance measures used for both processes. The paper adds to our understanding and the growing body of knowledge in strategic and corporate entrepreneurship and also of the measures of the outcome of their application by the firms at creating wealth and the development of competitive advantages.

Research Method

The Concept of Strategic Entrepreneurship

Strategic entrepreneurship is a new and emerging concept as noted by Schindehutte and Morris, (2009); Kraus et al., (2011). Ketchen et al., (2007) claimed that it fuses together the domains of strategic management and entrepreneurship. Firms achieve this competitive advantage feat through the application of the appropriate strategies (Slater and Olson, 2000). These strategies must be efficient and effective to gain and sustain the desired competitive
advantage (Ireland et al., 2001). A strategy opines (Mansfield and Fourie, 2004), “reflects the sum of managerial choice and is a blend of deliberate actions, tactical responses, and organizational learning”. Also, Mintzberg et al., (2003) consider strategy in terms of the five P’s that include the firm’s plan, ploy position, pattern, and perspectives. The strategy is associated with a better planned, structured and intense approach at using the organization’s resources for enhanced competitive advantage and the creation of firm wealth. The strategy is unique in that there is a consensus in the organization on its implementation. Strategies are therefore the weapons which managers use to develop and sustain competencies using organisational resources its creative energies, that lead to competitive advantages in the marketplace for creating, promoting and sustaining functionality of the five engines of growth: Market, Technology, People, Capital and Organization as a multi-track source of wealth creation (Ogunsiji, 2004).

According to Schendel and Hitt (2007), entrepreneurial activities concern the opportunity-seeking behaviors of firms. Entrepreneurship is an essential ingredient in the creation of firm’s wealth. Kuratko (2009) considers entrepreneurship as “a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients needed to do this include the willingness to take calculated risks, formulate an effective venture team, marshal the needed resources, build a solid business plan and finally, the vision to recognize opportunity where others see chaos, contradiction, and confusion”. From this definition, the creation of new and novel ideas is a very essential in the entrepreneurial process. It is also pertinent to include the need to consistently and continuously envision new concepts and re-engineer new process. This view is consistent with that of Shane and Venkataraman, (2000).

Many scholars agree that strategic entrepreneurship (combination of the concept of entrepreneurship and strategic management) strengthens the capacity of enterprises to explore and exploit strategic as well as entrepreneurial opportunities to create firm wealth, earn above average returns and thus develop and sustain competitive advantage and growth (Burgelman, 2002; Ogunsiji and Ladanu, 2010). Strategic entrepreneurship entails combining simultaneously the opportunity-seeking and advantage-seeking behaviors of entrepreneurship and strategic management respectively (Kuratko and Audretsch, 2009). Also, many scholars agree that the two behaviours complement each other (Ireland and Webb, 2007). In fact, according to Ketchen et al., (2007), “the actions associated with strategy and entrepreneurship are each necessary, but not sufficient, to promote sustained wealth creation”. Furthermore, that achieving the much desired balance between these two behaviors is, however, a problem for managers.

Despite the lack of empirical evidence with respect to strategic entrepreneurship at the creation of wealth by firms, we contend that strategic entrepreneurship will continue to be critical to firms as they grapple with challenging situations and environments to develop and sustain competitive advantage. The combination of opportunity and advantage-seeking behaviors, in the appropriate mix, opines Ladanu (2012), is critical for firms to achieve and sustain competitive advantages in the dynamic environment.

**Results and Analysis**

**Corporate Entrepreneurship**

Many scholars use different terms to refer to the various aspects of corporate entrepreneurship and this includes intrapreneurship (Antoncic and Hisrich, 2003), and corporate ventures or venturing (Kuratko and Audretsch, 2009). Corporate entrepreneurship is considered critical for organizations that want to take advantage of opportunities that emerge to develop and sustain competitiveness through the introduction of newness in products or services and/or processes (Hornsby et al., 2002)

Many authors (Hitt et al., 2001; Hornsby et al., 2002) conceptualize corporate entrepreneurship as the sum total of an organization’s policies, processes, and structures through which it undertakes pioneering innovations to enhance competitiveness through new products/services, processes, structures, and markets. In other words, corporate

https://doi.org/10.21744/ijls.v1i1.23
entrepreneurship concerns the domain of the firm’s competitiveness and the corresponding opportunities in the environment through the internally generated firm resource combinations. This definition views corporate entrepreneurship as a strategic resource through which organizations develop and sustain industry competitiveness arising from innovations (internally) in resource combinations. Sharma and Chrisman (1999) consider corporate entrepreneurship as “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”. This definition emphasizes the organisation-wide renewal or innovation of activities that lead to enhanced and sustained competitiveness. Corporate entrepreneurship in line with this definition concerns the entrepreneurial activities that utilize organizational resources and commitments such that the organizational, product and process innovativeness are enhanced thereby realigning the firm’s competitive and industry positions.

Extant literature reveals there are many forms or structures of corporate entrepreneurship (Aktan and Bulut, 2008). In fact, corporate entrepreneurship is considered to be multidimensional. According to Schollhammer (1982), corporate entrepreneurship entails five forms which comprise administrative, opportunistic, incubative, acquisitive and imitative forms. Covin and Miles (1999) identified sustained regeneration, organizational rejuvenation, strategic renewal and domain definition as the four forms of corporate entrepreneurship. Also, Antoncic and Hisrich (2001) classified corporate entrepreneurship dimensions into new business venturing, innovativeness, self-renewal and the proactive ten of firms. This paper identifies with the Antoncic and Hisrich (2001) conceptualisation of the forms of corporate entrepreneurship because it acknowledges the internal and external dimensions or impact of corporate entrepreneurial activities within firms. Also, it recognizes the import of innovativeness and appreciates the consequences of corporate strategic alliances within the firm’s entrepreneurial processes.

**Performance Measures in Strategic and Corporate Entrepreneurship**

The interest of academic research on performance and its measurement is currently increasing (Bourne et al., 2000). The measurement of firm performance is considered important at improving the firm’s competitiveness (Sharma et al., 2005). According to Kumarasinghe and Hoshino (2010) “measuring performance is a controversial issue in management studies” One of the problems with performance measurement literature is that it is diverse” (Marr and Schiuma, 2003). This is evident from the fact that research by academics on firm performance measurement has been widely undertaken from a variety of spectra of academic disciplines including accounting, strategic management, operations and production management, organizational behavior and human resources management. On performance measurement, Neely et al., (1995) opine it is “...... rarely defined”. This paper is distinct in a number of ways, in that it sees the strategic entrepreneurship seems more relevant to the performance of private sectors involving both Small and Medium Enterprises (SMEs) while corporate entrepreneurship focuses on public sectors with efficient policy instruments (This policy instrument serves as guidelines or roadmaps to performance). The existence of a policy guideline tends to cripple or stiffen ingenious innovativeness because challenges and the environment in which public organizations operate in most cases afford them an efficient insolvency system, tamed environment and an amusing anecdote about success. The strategic entrepreneurship, therefore, calls for creative marketing and corporate intelligence capable of giving a product an edge over other competing products. The task of strategic entrepreneurship requires an ingenious product-process engineering, advert, and promotional support. In short, it calls for more creativity, conceptual thinking, where benchmarking could put the organisation at sustainable competitive advantage. Furthermore, it considers defining performance measurement as the starting point to a better understanding. We, therefore, begin by considering some definitions from extant literature. Performance measurement according to Neely et al., (1995) refers to “the process of quantifying the efficiency and effectiveness of action”. Tangen (2003) considers firm performance measures as the metrics used to determine the efficiency and/or the effectiveness of firm's actions. From the foregoing,
two things can be considered as fundamental in the definition of performance: effectiveness and efficiency. Neely et al., (2002) define effectiveness as “the extent to which stakeholder requirements are met, while efficiency is a measure of how economically the firm’s resources are utilized when providing a given level of stakeholder satisfaction”. The public sector operators’ main, if not the only concern, is on the level of stakeholders’ satisfaction whereas the private sector managers are concerned with both. Consequently, private organizations strive to formulate and implement strategic actions that can be considered effective and efficient to match the firm’s resources at creating the distinctive competencies to sustain the desired competitive advantages. This is the sole duty of strategic entrepreneurship. Also, Moulin (2003) considers firm performance as “how well the organization is managed” and also, “the value the organization delivers for customers and other stakeholders”. We consider firm performance measures or measurement as the metrics designed or used to determine the consequences and hence how well the actions and activities of firms at utilizing their resources meet the balanced expectations of the stakeholders. This definition takes care of the tradeoffs inherent between effectiveness and efficiency. In other words, performance measurement should answer several questions in relation to the firm’s operations with its stakeholders: how well did we do? how well are we doing? and how well can we do? This considers the past, present and future outcomes of the firm.

Performance measurement from extant literature is multi-dimensional and includes financial and non-financial (i.e. operational and stakeholder-related) domains (Pont and Shaw, 2003). In many enterprises, traditional accounting-based financial measures of performance are utilized. Financial measures are considered as past-oriented or backward-looking or “lagging” measures (Ittner and Larcker, 2003). They are not proactive and so do not equip managers with what to do to improve performance in the future. The reliance on financial measures alone for firm performance cannot be used to address the many strategic and dynamic nature of the firm environment (Ahn, 2001). Therefore, the focus should be on a wide perspective of the firm’s stakeholders (Sureshchandar and Leisten, 2005). Firms now place less emphasis on the use of financial measures alone i.e. profitability, return on assets and return on investments to determine the firm’s corporate or strategic performance (Wheelen and Hunger, 2002), although, Gosselin, (2005) presented a contrary report for the sample of firms used in the study. Consequently, to solve the problems identified by the use of the traditional (accounting-based) performance measures, a number of performance measurement frameworks were developed including the Balanced Scorecard (Kaplan and Norton, 1992, 1996), ABPP- Activity-Based Profitability Pyramid (Meyer, 2002), Performance Prism (Neely et al., 2001) and the Integrated Performance Measurement System (Nanni et al,1992). Of these performance measurement systems, the Balanced Scorecard is the most popular with wide acceptability in many firms worldwide (Marr, 2005). According to Brewer (2002), about 50% of the firms in the Fortune 1000 enterprises in North America and between 40-45% of the large enterprises in Europe make use of the Balanced Scorecard approach. The Balanced Scorecard is a strategic business management system that helps organizations to translate their missions and strategies to a “balanced” operational performance measures (Brignall, 2002; Ho and Chan, 2002). The Balanced Scorecard combines financial (lagging indicators) and non-financial (predictive indicators) by focusing on four distinct perspectives that include: finance, customer, internal business processes and the learning and growth of the firm (Qureshi et al, 2009). The four perspectives are properly linked in a relationship of cause- and-effect that enables managers to measure performance as well as strategically align operations with all stakeholders (Gumbus and Lyons, 2002). The Balanced Scorecard is, therefore, a core management tool. In many organizations too, it is used to guide strategy. In other words, it is used by managers to translate intangible firm assets into tangible outcomes (financial).

Despite these laudable benefits of the Balanced Scorecard, it has a number of shortcomings which include the following:

a. the fact that it is a strategic and operational management system implies it is an incomplete system for measuring performance (Neely et al., 2001);

b. it does not take a holistic view of the organization’s stakeholders i.e. the competitors;
c. the fact that it has many performance indicators makes it inadequate or complex for managers that desire simplicity and clarity (De Waal, 2005).

It is pertinent to state that performance measures can also be considered on the basis of "subjective" that is primarily concerned with the performance of firms relative to their own expectations or relative to that of the competitors (Pont and Shaw, 2003) and "objective" measures. Vorhies and Morgan (2003) consider objective measures as independent observable data/information obtained from secondary sources or in the absolute values obtained from respondents. By 2005, they considered these subjective and objective measures as "soft" qualitative and "hard" quantitative measures of performance respectively. Examples of firm objective performance measures include sales growth, profitability and return on assets while subjective performance measures include return on investments (Harris, 2001) sales growth (Luo et al., 2005) and the success of new products activities (Atuahene-Gima et al., 2005). For many researchers, subjective performance measures are widely used arising from their accessibility and the secrecy attached to objective measures by managers (Matsuno et al., 2002).

On the whole, for both corporate and strategic entrepreneurial endeavors of firms, the above measures, financial and non-financial, subjective or objective measures, and in many cases, a combination of these measures are utilized to assess the outcomes of firms. However, some salient distinctions need to be made explicit with respect to both forms of entrepreneurship. That corporate entrepreneurship involves all forms of newness that is, the introduction of new businesses or processes while strategic entrepreneurship, on the other hand, may not necessarily involve such dimensions. Also, corporate entrepreneurship may be considered infrequent and through trial and error, strategic entrepreneurship is systematic and highly organized in form. These differences need to be appreciated and exploited at creating metrics for the measurement of performance in these two forms of entrepreneurial processes.

**Conclusion**

In this paper, we have considered issues that have to do with performance in the context of strategic and corporate entrepreneurship. These issues are important and have wide implications for organizations operating in a global and dynamic environment arising from the strategic focus of these firms to position themselves competitively using strategic and corporate entrepreneurial processes. The issues considered have also increased our understanding of these forms of entrepreneurship at creating firm wealth and competitive advantages. In the measurement of firm performance, the traditional backward-looking measures have met with outright dissatisfaction hence the development of the "multi-dimensional" or "balanced" measures.

**Recommendation**

The outcome of the firm’s corporate and strategic entrepreneurial activities and hence their performance should among others be: strategy inclined; clearly defined; simple and easy to work with; highly precise and quick to work within an input-output fashion; focus on the firm’s operations with the firm’s objectives at creating newness (corporate entrepreneurship) or creating competitive advantages (strategic entrepreneurship) in mind and sufficiently dynamic to spur continuous innovation and improvements on the firm’s activities.

**Acknowledgments**

The author says thank to the editor of journal for their consideration to publish this paper.
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