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Promoting Employee Intrapreneurship to Enhance Corporate Agility

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Abstract: Against the background of a fundamentally changing work environment, companies' requirements regarding employees and the mechanisms of collaboration will substantially change: employees must become increasingly flexible and entrepreneurial. This paper gives a closer look at these new requirements and will highlight some possible future solution ideas. It first reviews the characteristics that influence the decisions to undertake entrepreneurship. Starting from these general notions, the paper reviews two empirical studies carried out in production and service industry, identifying the central success factors that need to be addressed in order to stimulate employee intrapreneurship.

Keywords: Employee intrapreneurship, agility, empirical research

1 Introduction

CEOs talk about growth; markets demand it (Gulati 2004), but profitable organic growth is difficult. Growing competition, new technologies and global markets force companies to act in an increasingly fast and market-oriented way, leading inevitably to changes in organisation and company culture. Rigid and function-oriented organisational structures will be substituted by flexible, project-oriented or even virtual organisations. Collaboration will change quickly according to the new requirements. Different people, whole enterprises or only parts of a company will be able to temporarily build virtual teams or companies, locally or within networks.

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2 D.T. Matt, E. Rauch

In order to identify new opportunities for sustained superior performance and enhanced company agility in a turbulent market environment, organisations and employees must become increasingly flexible and entrepreneurial, involving organisational learning driven by collaboration, creativity and individual commitment (Hayton 2005).

2 Literature Review

Entrepreneurship has been a focal issue in economics from the very beginning. Economists like Josef Schumpeter have included entrepreneurs as a main feature of their models, in order to differentiate entrepreneurs as catalysts of change within the economy (Schumpeter 1989). This tradition has been followed to the present.

The worldwide excess of supply leads inevitably to a changed behaviour of firms. Further growth is only possible in a qualitative way (Matt 2007). The resulting shorter cycles for development and reconfiguration of product, technology and organisation lead to decreasing amortization times while, at the same time, the fluctuating demand implicates a reduction of capacity usage. Intensified by the actual recession in the world economy many “traditional” jobs migrate to low cost countries. Political sanctions and modified legal basic conditions are important to slow down the structural change, but they are not able to stop it (Matt 2008).

Initiated by the progressing digitalization of communication flows and business processes the research activities on the effects of technology induced changes of value chains and organisations in the last years captured a lot of attention. Several authors observe from different views the effects of technology driven changes namely in the categories Corporate Strategy (Bleicher 1999; Hamel 2000; Halem and Prahalad 1994; Tapscott 1995) and Organizational Structure (Ghoshal and Bartlett 1997), as well as Product Development (Downes and Mui 1998). Any company that is not continually developing, acquiring, and adapting to new technological advances and to the changing business environment may be out of business within a few years (Merrifield 1993).

The focus of these research activities was first of all to identify certain regularities or patterns in the functional principals of this new “digital economy”, facilitating organizations to react on the resulting challenges and to manage the rising pressure for change.

The consequence of this change processes and the increasing networking is a growing complexity, which has to be managed by organization (Matt 2007). At the same time firms are under pressure to absorb the progressing acceleration of technological developments. While the increasing acceleration requires always faster actions for adaptation and the available time for reaction gets shorter, the needed time of an organisation, to react on these changes, increases because of the growing complexity (Bleicher 1999).

The increasing intensity of change, based on technology driven changes, has created a dynamic and branch independent market, where the company specific capability to change has become an essential core competence. Barney defines this capability as collective learning in an organisation, in particular regarding the coordination and the integration of always more manifold technologies and production processes (Barney 1991). The core competence of the capability to

change in an organization is therefore the prerequisite for the development of sustainable competitive advantages that are rare, valuable, inimitable or difficult to imitate and not substitutable (Barney 1991).

This way, an organization's capability to change becomes more and more a critical resource for a company's success. However, this needs a socio-organizational willingness for change, the configurability of value added processes and their adaptability through IT-systems. The employee must learn to understand the own competences and capabilities as a valuable and limited resource for the company. This implicates turning away from the traditional view, i.e. to provide working time for money, towards a performance oriented and entrepreneurial spirit: "I have to produce a visible and measurable benefit for my employer, to keep requested myself in the eyes of my employer". The employee has to seek for the best fit between the own competences and the imminent functions as well as to train and develop continuously his or her actual competences and capabilities (Matt 2008).

Pinchot (1988) introduces the term "intrapreneur", shortcut for "**intra**-corporate **entrepreneurship**" which describes people, who are employed in a common employer-employee-relationship, but are thinking and acting like an entrepreneur pursuing opportunities, initiating actions and emphasizing new, innovative products and services. Other authors (Haskins and Williams 1987, Covin and Slevin 1991, Brandt 1986, Stevenson 1988, McGinnis and Verney 1987, Kuratko *et al.* 1990, Chisholm 1987, White 1988, Zahra and Pearce 1994) view Intrapreneurship as an organizational mode, characterized by the factors of freedom and autonomy. To really think and act entrepreneurial is only able, who feels – at least to a certain extent – responsible for the consequences of the own thinking and acting. The intrapreneur is developing himself congruously to an "employed entrepreneur" (Matt 2008). Just for quite a long time different tools and methods like management by objectives, the profit centre concept and the introduction of incentive systems are used from companies to enforce the responsibility and the autonomy of employees (Franke 2004).

In the following it will be studied, which characteristics a job could have for an "employed entrepreneur" and which challenges could be derived for the future working life.

3 Method and approach

The base for this empirical research is built on a simple insight: every person can be considered an entrepreneur for the own business and existence, regardless of which professional career he or she follows in life. He or she provides manpower, creativity, knowledge etc. for others. As far as the offered range of services meets a market demand, a return can be expected, depending on the value and benefit perception of the service receiver. In this context it is indifferent, whether the service is performed by only one person or with support from others – it is always a matter of a network or social interaction of more than one person, who are all part of a buyer-supplier-relationship, and whose individual success depends on the attractiveness of the entire range of services.

Against this background, two case studies will be presented and discussed in order to extract methodological guidance for future research. Both cases are based

4 D.T. Matt, E. Rauch

on practical projects with two different small and medium sized Italian companies, which were accompanied by the authors in the period from 2005 and 2007. One case study is taken from the secondary sector (metal working industry) and the other one from the tertiary sector (services). Both firms have got one basic commonality: on the one hand the necessity, to adapt their capacity in human resources in a flexible way to the actual situation of demand, and on the other hand the objective to develop their employees to think and act like an entrepreneur. Intrapreneurship has almost been used in literature for very large organizations. However, the need for intrapreneurship is also very important in small and medium sized businesses (Carrier 1996; Zahra and Pearce 1994), as shown by the following case studies.

In both companies innovative working and collaboration models were introduced and approved on a different level and in the context of range of possible measures provided by law and regulations. The results of these two case studies build the base for a further reflection about future forms of working collaboration.

3.1 Case Study 1: Metal working industry

The firm in our case study is a medium sized company in the metal working industry with about 170 employees and a sales volume of about 50 million Euros. In the past, the company has been growing with the market and has become a highly profitably enterprise. However, the last five years were determined by stagnation of market and sales. Further growth was only possible introducing new products and increasing the variants in the product portfolio: as a result, the amount of product types increased about 56% from 2002 to 2007, the number of product variants exploded with an increase of 138% (Matt 2008). Foreseeing this market trend, the company introduced some years ago a highly flexible and agile production system. The explosion of variants and the high variation of assembly times could be handled only by substituting the traditional tayloristic assembly lines with a new object oriented and flexible assembly system using universally configured assembly workstations to allow the assembly of every type of product on every assembly workstation (Matt 2006). In addition, a relevant increase in productivity could be realized by the elimination of not value adding handling caused by varieties in the cycle times.

3.1.1 Initial situation

However, in the recent past previously unknown seasonal fluctuations created new challenges. The company first tried to balance the workload using the traditional concept of overtime, compensating it in periods of lower capacity requirements with four-day-weeks. However, longer periods of low workload showed the effect to create a general slow-down in work speed and thus led to a lower productivity which could not been caught up to the original level even during longer periods of high demand.

To understand the reasons for this phenomenon, the company started a detailed analysis with focus interviews involving several employees. The interviews showed that during the periods of low workload the employees started to develop an extremely negative attitude based on the existential fear to lose their jobs. As a reaction, they reduced their work speed to bypass these periods of low production volume; in periods of stress and high demand the employees maintained this

strategy saying: “Why should I work today with a high speed, knowing that next week I’ll be asked to take a day off because of low demand”.

The analysis showed also, that the recent reconfiguration of the production system towards an object oriented assembling resulted in a higher transparency regarding the individual performance and production speed in comparison to the performance of the other employees and teams. However, it has never been combined with any incentive mechanism that would encourage people to tune their own performance according to the given necessities. This way, the originally motivating effect of a clear perception of the own working performance turned to become extremely negative in periods of low capacity utilization.

Against the background of the insights gathered from the focus interviews, the company formed a team with the objective to develop a new working model, which should be tested by one assembly team. The new working model should fulfil the following criteria (Matt 2008):

- Performance = output/time: Performance is the prior key performance indicator for employees and not the dismantled working time. The performance and the productivity should be brought to a high level independent of the actual demand.
- The success of a higher productivity should be shared between the company and the employee
- Promoting and requesting the willingness to change. The employees have to adapt their capabilities and skills to the quickly varying tasks and requests
- Openness and transparency between employees and company – in both directions!

3.1.2 Results of the new working model

Based on the above criteria, the team created a performance related working model with differentiated characteristics related to the different types of performance.

All types have one common principle: measurable earnings from the increase of the performance will be shared between the company and the employees. A similar approach can be observed in the supplier development, where customers and suppliers share the savings resulting from optimized processes and parts’ simplification, creating a win-win-situation where both parties are motivated to promote further progress and cost reduction. If you want to get people to act as entrepreneurs you need to pay them as entrepreneurs (Dees and Lumpkin 2005). This approach will be illustrated now in our example of metal working industry.

The pilot project to the conception and realisation of the new working model was tested initially on the assembly team PG-A (product group A). On the base of a performance rate of 100% an average productivity rate was defined (in elements produced per minute) depending on the product mix.

The production has one week of preview on order positions. Based on the capacity calculation and the planned assembly cycle times the head of production gives his employees an orientation for the needed working time for the following days. The outgoing dimensioning of the assembly team is based on the planned yearly demand and is fixed on 75%. The team is working now autonomously and decides if it has to work overtime, if it needs an additional employee from a reserve

6 D.T. Matt, E. Rauch

pool or if one of the production team is taking a day off. Savings resulting from a team's higher productivity rate are calculated in steps of a half man-year (with an average gross annual amount of € 35.000 for one person in production). 50% of this savings will be paid to the team. For the continuous calculation of this "bonuses" a software tool based on MS Access was created (see also Fig. 1) which allows the team to view their "account" at any time.

The payment of the achieved savings is carried out quarterly. The distribution of the savings to the single employees is calculated by the tool based on the individual performance of every single team member. The bonus of the team leader is calculated by the quotient of savings and number of employees in the team to stimulate the team leader to increase the productivity at on the one hand and to keep low the number of employees at the same time. Such an environment promotes "intrapreneurship" (Sathe 1989).



Fig. 1. The production-tool for measuring the performance and for calculating the quantum of the bonuses

The created autonomy and self determination of the group as well as the simultaneous entrepreneurial involvement by sharing the achieved savings has led to an enormous motivation and to an important increase of productivity in the pilot-team. The concept is currently rolled out to the entire production.

3.2 Case Study 2: firm of consulting engineers

The company was founded 15 years ago. Through his highly technical competence the firm established to a esteemed expert and partner for his clients. The company started originally with the creation of fire protection plans and extended his competence in this sector working on different safety relevant issues like: safety plans, emergency plans, civile defence plans, organisation planning in case of emergency and risk-management accompanied with coachings and software solutions.

In the last years there could be identified two critical problems, which induced the company to initialize a project to change the existing working model:

While prices for the products and services were falling, the personnel costs and the effort for the supply of the different services increased. Personnel costs are fixed costs, that means, that the employee is getting his salary independent of being productive – i.e. generating contribution margin – or not.

In addition, it is difficult to find competent employees, because training is expensive and time-consuming. The knowledge of the firm is concentrated in only few persons and a good internal knowledge-management is vital for a service provider. At the same time it has to be assured, that the achieved know-how level doesn't get lost through fluctuation. In the past some of the employees, that leaved the company, opened their own engineering firm and got into competition to the described company.

Against this background a project was defined aiming at the development of a service specific organisation model for securing know-how and increasing output and performance (added value per person) through a suitable incentive mechanism and an efficient organisation of process and structure.

3.2.1 Initial situation

First, all of the 20 employees were interviewed in confidential four-eyes-dialogues. In this case these interviews were not a common employee survey; the objective of this analysis was the identification of hidden behaviour patterns. These so called "unwritten rules" (Scott-Morgan, 1995), that anyone in the firm knows, were often the topic for conversation in small employee groups. The result of the interviews was summarized in an anonymous form. Essential findings for the reorganisation of the working model were:

- The employees have defined working hours and have to clock in and out.
- The employees work on the projects, the company owner distributes orders and controls the projects
- Every day the employees have to "sit out" 8 hours, independent of the effective amount of orders. The employees preferred to take their holiday in stressful phases.
- Nobody likes to work on projects with an effort to travel.
- The employees get a fixed salary. Bonuses are payed equally to all employees.
- Objectives are defined by the firm owner but are not communicated.
- Only the owner aquires new projects. More projects mean only more workload to the employee and create more profit only for the owner.

Based on this insights a project team was enrolled to develop an advantageous form of collaboration for both, employees and entrepreneur. The principle of the organizational design was (see also Johnson 2001) to identify, to compare and to harmonize the objectives of the company and the individual objectives of every employee (see also Fig. 2).

8 D.T. Matt, E. Rauch

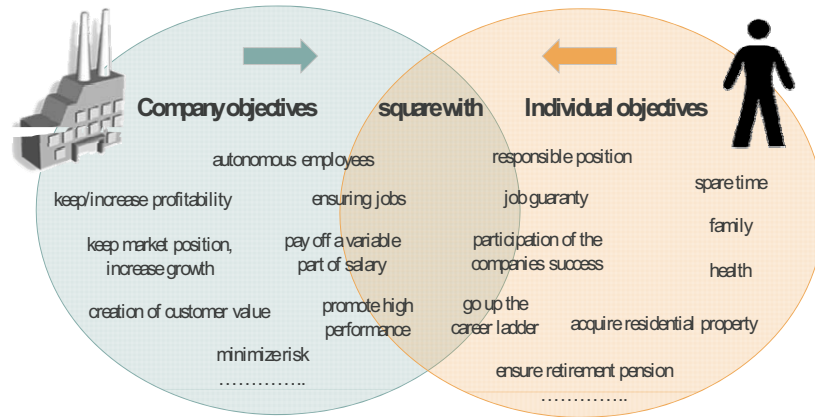


Fig. 2. Harmonize the company objectives with the individual objectives

3.2.2 Results of the new organizational model

For employees, which finished the period of vocational adjustment and the learning time (about 1 year), the following changes (in extracts) were introduced and realized:

- The employees have flexible working hours and do not have to clock in and out. The working time is oriented at the tasks and the actual workload.
- The employees are managing the projects autonomously and are responsible for their success, the company owner supervises just occasionally and on request
- The attendance depends on the requirements: if there is a high workload the employee works overtime, in periods with a low pile of orders he takes some days off.
- The customer relationship is becoming very important to the employee, because a loyal client implies potential earnings and security. To satisfy a good client the employee is more active than before and is also willing to travel.
- The employee is paid on the basis of effectively clearable work days and gets a personal daily rate, which is oriented at the individual experience and expertise, performance and the constant contribution to the further growth and development of the company. The monthly salary depends now on the effective worked and invoiced days. The firm owner only guarantees a minimum of workload.
- Objectives are defined in the team with the firm owner. Everyone knows, what to do.
- Everyone is encouraged to acquire new orders. More orders imply more potential earnings (because of higher workload) and the effort to acquire a new project is rewarded.

5 Summary

The main findings of the analysis of the two cases studied in this research can be summarised as follows: For future work life companies will need employees with

- the ability and readiness for autonomous and lifelong learning
- the readiness to bear personal responsibility
- a high work autonomy and target orientation
- a strong orientation to results and performance by decoupling work contents from work time
- an enhanced mobility of labour
- a good and broad general knowledge (the required solid expertise must be complemented by a broad knowledge in various disciplines)
- the readiness to assume risk

Furthermore, the research will give first indications and recommendations for the intrapreneurial (re-)design of a company's organisation. Future research will now concentrate on the generalization of the above findings in order to develop some guidelines for the performance oriented design of future "intrapreneurial" workplaces.

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10 D.T. Matt, E. Rauch

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