

Magdalena Majowska, Mariusz Bratnicki,
Janusz Strużyna

Strategic Perspective on Corporate Entrepreneurship and Reward Policies

This paper looks at the issue of strategic perspective in corporate entrepreneurship. Explorer, creator, master, and top of the class are the four qualitative types of entrepreneurship strategies distinguished. Attention is called to opportunities and competencies as critical factors. There is also a focus on the content of the entrepreneurship strategy process with respect to nine strategy dimensions—the entrepreneur type, organization image, the strategy process, perception of the environment, strategic attitude, learning issues, imperative for strategic leadership, the key entrepreneurial process, and main organizational enablers. Moreover, reference is made to reward policies in the strategic entrepreneurship context and the relationship between entrepreneurship strategies and reward policy dimensions is investigated. Finally, theoretical implications and directions for further research are discussed.

Introduction

Both theory and practice suggest that organizations may benefit from achieving sustainable corporate entrepreneurship. Previous research indicates that such orientation is critical for a firm's effectiveness [Dess, Lumpkin, 2005]. Corporate entrepreneurship reflects desirable entrepreneurial types of behavior whose relative efficacy may be strategy and organizational architecture dependent. However, little theoretical work details how entrepreneurship might contribute to enhance an organization's functioning and development. Thus, one important point arises with regard to corporate entrepreneurship: Providing this process requires selection of the appropriate entrepreneurship strategy.

This paper refers to entrepreneurship strategies that must be effectively deployed. Although some scholars [e. g. Shane, 2003] focus on entrepreneurial strategy as it concerns actions to obtain and preserve value from the exploitation of opportunities, entrepreneurship strategies are a topic that literature has been largely silent about. No studies

known to the authors have specifically examined the impact of specific strategy in the context of corporate entrepreneurship—strategy that comprises both proactive shaping of the environment (indicated by the number of opportunities) and a firm's development (indicated by the number of competencies).

This paper addresses the issue of reward policies as an important part of the strategic thrust of HRM. The relation between entrepreneurship and HRM has been emphasized in literature [Morris, Jones, 1993]. It is indicated that HRM policies are especially critical for encouraging corporate entrepreneurship [Kuratko, Ireland, Hornsby, 2001]. Particular organizational strategies, such as the entrepreneurship strategy, can be furthered by putting together consistent sets of HRM policies, including rewards. The strategic perspective on reward is based on the fact that that matching reward policies to business strategy results in a firm's better performance [Montemayor, 1996].

On the basis of the notion of policy, it is argued that unique reward policies should be used to stimulate entrepreneurial actions and to support the implementation of entrepreneurship strategies. The basic premise of this paper is that certain combinations of reward policies better support entrepreneurship strategies and that some reward policies are more suitable than others, given the importance of an organization's competencies and the nature of a firm's environment. The purpose behind this paper is to describe corporate entrepreneurship and its importance for a firm's development as well as investigate the relationship between various entrepreneurship strategies and reward policies.

The presented framework enhances understanding contingencies of proactive shaping of the environment and organizational development by using sustainable entrepreneurship strategies. First, it is the notion of co-alignment to develop an explanation of what entrepreneurial actions create that is relied upon. Next, four different types of entrepreneurship strategies—explorer, creator, master, and top of the class—are posited. Each entrepreneurship strategy is a coherent and fruitful issue and thus has something to offer to the question of corporate entrepreneurship. Attention is also turned to reward policies in the strategic entrepreneurship context where the relationship between various entrepreneurship strategies and reward policies are investigated. Finally, theoretical implications and directions for further research are also discussed. New insights on the practical consequences of some basic corporate entrepreneurship ideas and concepts are touched upon.

This way, it is hoped that knowledge of when particular entrepreneurship strategies are most likely to be successful will be enhanced. This framework can be used to better understand how organizations can succeed in different contexts. Specifically, we believe that understanding the boundaries of entrepreneurship strategy, and their corresponding reward policies, serves to make them more powerful and more precise. Such an under-

standing also defines their place within a broader set of tools that are available to address thinking, decision making, and acting under uncertainty.

I. Dimensions and Types of Entrepreneurship Strategies

Corporate entrepreneurship is a kind of dynamic, coordinated creation where opportunities and organizational actions are reconciled. In order to respond and influence environmental conditions and developments, the organization co-aligns with the environment by building and modifying resources, competencies, and organizational architecture. In other words, an organization adapts to its environment and creates a new competitive environment by means of entrepreneurial ventures that have strategic direction [Wickham, 2001]. Moreover, research suggests an important role for strategic uncertainty, defined as the manager's subjective assessment of the uncertainty in their firm's external environment, weighted by the manager's evaluation of the performance of relevant environmental sectors to the success of their firm's strategy [Zahra, Neubaum, El-Hagrassey, 2002]. Strategic uncertainty would likely increase the benefits of competitive analysis and its impact on corporate venture performance. Implications for corporate entrepreneurship refer to a need to develop and conduct formal and comprehensive entrepreneurship strategy creative practices. These issues suggest that strategic uncertainty has a substantial impact on perception as well as acting aimed at seizing and pursuing unformed opportunities. Many firms attempt to build on their existing knowledge base to create, identify, and pursue new opportunities.

Consider the following from Hoskisson and Busenitz: "We contend that the entry strategies chosen in the pursuit of various forms of corporate entrepreneurship can be better understood by examining the linkages between the requirements to pursue uncertain market opportunities with capability and learning needs necessary to achieve the opportunity visualized" [2002:152–3]. Stated more generally, for various entrepreneurial strategies to be successfully implemented at the corporate level, there needs to be a fundamental understanding of the external environment in which high potential opportunity resides and the development requirements of the focal organization.

Based on the above, it is necessary to focus on the two key dimensions of entrepreneurship strategies: environmental uncertainty and a firm's development characterized as a particular learning distance. Environmental uncertainty is characterized as interaction between complexity and dynamism [Daft, 2000]. Faced with many opportunities, there is great complexity in the elements and components that are potentially relevant to entrepreneurial endeavors. If the elements of the environment have a dynamic nature, entrepreneurs must struggle with imperfect attempts to implement decisions regarding opportunities. Learning distance, on the other hand, is characterized as the extent to

which a firm's current competencies are adjacent to the competencies needed to exploit and pursue opportunities. Firms that have developed strong competencies in a specific domain are often in an excellent position to leverage those competencies when a related opportunity is perceived to arise. In other words, entrepreneurial opportunities that are in the immediate neighborhood of a firm's existing competencies face fewer risks and are unlikely to significantly alter current performance. Many organizations attempt to build on their existing knowledge base to create and capture new opportunities.

The strategic aspect emphasizes the importance of organizational learning for co-evolution of opportunities and competencies [Dagnino, Mariani, 2004]. Recent evidence supports this argument. Garg, Walters, and Priem [2003] emphasized that both opportunity and competence must be accurately identified for strategic success. The idea of the leveraging of competencies across opportunities flows naturally from Miller's observation that "the same capabilities can be applied across different products and industries" [2003: 971]. Consequently, entrepreneurship strategy can be viewed from the perspective of both perceived environmental uncertainty (an external orientation), and firm competencies and learning distance (an internal orientation). Thinking in terms of a portfolio of opportunities and competencies implies a strategic perspective on corporate entrepreneurship. Here, the conceptual distinction of two dimensions are drawn upon:

- a) Proactive shaping of the environment that reflects opportunity creation, shaping, recognizing, and interpreting characterized by the number of opportunities actually within the field of strategic attention,
- b) Firm development that reflects seizing and pursuing of opportunities by forming strategic potential, measured by the number of an organization's competencies based on suitable capabilities, processes, and resources.

One can state the following:

- (1) Proactive shaping of the environment, as indicated by the number of opportunities, and the firm's development, as indicated by the number of competencies, are salient dimensions of the firm's entrepreneurship strategy;
- (2) When environmental complexity increases, the number of opportunities explored and exploited by a given firm increases;
- (3) When environmental dynamism increases, the number of a given firm's competencies increases.

In the shaping of the environment and the development of a firm, organizational entrepreneurs make opportunities and take strategic actions to capitalize on them through four generic entrepreneurship strategies—explorer, creator, master, and top of the class. The best strategy depends on where an organization lies, given the importance of environmental complexity and dynamism and a firm's learning distance. As one analyzes four

entrepreneurship strategies, there will be different predictions about the firm's relative performance.

In summary, this approach assumes a managerial perspective and suggests two kinds of action:

- (1) The firm's attempts to change itself by developing new competencies,
- (2) The firm's attempts to change its environment (which includes defining it) by using of opportunities.

The firm's effectiveness is a function of both the nature of its competencies and the nature of the organization's environment. The institutionalization of entrepreneurship requires that it is created as a shared mindset, including:

- (1) The type of an entrepreneur,
- (2) The image of the organization,
- (3) The strategic process for achieving competitive advantage,
- (4) Environmental perception,
- (5) Strategic attitude,
- (6) Learning issues,
- (7) An imperative for strategic leadership,
- (8) Key entrepreneurial processes, and
- (9) The main organizational enablers.

These nine elements form a strategic pattern conducive to guiding corporate entrepreneurship and fall naturally within the domain of entrepreneurship strategy.

2. Reward Policies in the Strategic Entrepreneurship Context

The issue of a reward system has received widespread attention, both from researchers and society [Barkema, Gomez-Mejia 1998]. The reward system is one of the most prominent attributes of complex organizations. Numerous studies have examined its design, motivational significance, and efficacy, pointing to the diversity of the discussed problem.

Here, it is the notion of policy that is relied upon. Policies provide guidelines on approaches to managing rewards. Reward policies indicate "what the organization and its management are expected to do about managing rewards and how they will behave under given circumstances when dealing with reward issues" [Armstrong, Stephens, 2005]. A reward policy involves selection of a portfolio of rewards and the design of its precise form. Firms enjoy much discretion in choosing particular reward policies [Balkin, Gomez-Mejia, 1990].

Numerous reward policies have been identified in the literature that has strategic significance [Kerr, 1985]. However, the strategic impact of reward policy has received little

empirical attention. Reward decisions can be classified into three reward policy areas that represent a number of bi-polar dimensions [Gomez-Mejia, 1992]:

- Basis for pay – the basis or criteria for reward distribution, such as job vs. individual skills, performance vs. seniority emphasize, individual vs. group performance, short-term vs. long-term orientation, risk aversion vs. risk taking, corporate vs. division performance, internal vs. external equity, hierarchical vs. egalitarian emphasize, and quantitative vs. qualitative performance measures;
- Design issues – the structure and design of the compensation package, such as pay compensation level vs. market, fixed pay vs. incentives, bonuses vs. deferred compensation, the frequency of raises or bonuses, and reliance on intrinsic vs. extrinsic reward;
- Administrative framework – the organization’s policies and procedures that govern the pay system, such as centralization vs. decentralization of pay policies, open vs. secret pay, participation vs. nonparticipation of employees; and bureaucratic vs. flexible pay policies.

In the field of HRM, the idea that reward policies have strategic impact has become a major theme within compensation literature since the mid-1980s [Boyd, Salamin, 2001]. This strategic perspective on reward is based on the fact that organizations differ in reward policies and the belief that matching reward policies to business strategy results in higher organizational performance. Compensation theorists emphasize that firms should match their reward policies to their strategies. This matching hypothesis has been generally supported [Salter, 1973]. There are a number of empirical studies that have examined this relationship [Boyd, Salamin, 2001]. An important contribution to clarifying the fit between reward and organization strategy originated in the work of Balkin and Gomez-Mejia [1987], who found that the effectiveness of compensation was contingent upon the organization’s strategic characteristics. In a subsequent study [Balkin, Gomez-Mejia, 1990], the authors explored the implications of corporate and SBU strategies for pay package design. According to the Montemayor analysis [1996], firms implementing an innovation strategy should use different compensation policies than firms implementing cost-leadership or differentiation strategies. Research findings offer some insights about the relationship among strategies and reward policies. This body of research suggests that coherent strategy types are more effective. Effectiveness in strategy implementation at the corporate level depends significantly on the existence of a match between reward policies and strategy. Congruence is necessary to ensure that organizational elements work together to promote strategic goals. Thus, the matching of reward and strategy has strong “theoretical and empirical justifications” [Boyd, Salamin, 2001].

In the strategic perspective on reward, there is also a heavy emphasis on the role that reward policies play in helping organization adapt to the characteristics of the relevant environment [Gomez-Mejia, 1992]. The choice of reward policies is contingent on the

trends existing in that environment. Finkelstein and Boyd [1998] provide some evidence that in fact, the design of CEO compensation reflects environmental characteristics. Additionally, it has been shown recently that total pay is related to organizational complexity [Carpenter, Sanders, 2002]. Reward policies tend to be aligned with the characteristics of the environment and the organizations themselves [Stroh, Brett, Baumann, Reilly, 1996]. Reward policies may be influenced by a wide variety of internal and external characteristics. A major challenge is “to extract any basic combinations or patterns of pay decisions that may be related to a variety of organizations and environmental conditions” [Milkovich, 1988].

This discussion makes it possible to state propositions concerning the appropriateness of reward policy dimensions, given the strategic internal and external conditions facing the firm. Thus, attention is turned to the nature of a firm’s environment and the importance of the organization’s competencies as critical factors. It is assumed that the different sets of reward policies support each type of entrepreneurship strategy. The pivotal point is that some reward policies are more suitable than others, given a proactive shaping of the environment (indicated by the number of opportunities) and firm’s development (indicated by the number of competencies). Based on the arguments above, one can state the following proposition:

■ Proposition 1: There is a relation between reward policy dimensions and a certain type of entrepreneurship strategy.

It is a fact that certain reward policies better support a firm’s strategic business objectives. Moreover, organizations have considerable discretion in choosing particular reward policies, where the choices made have strategic consequences for the organization [Gerhart, Milkovich, 1990]. Reward policies, if properly designed, may result in certain consequences for the organization, and thus may affect its sustaining of a competitive advantage. It is also a fundamental assumption of literature on rewards, that matching reward policies to business strategy results in better organizational performance. That is, high-performing firms adopt reward policies congruent with their strategy and all deviations in this respect have a negative effect on the organizational performance [Montemayor, 1996]. Thus, the greater the divergence from the “ideal” set of reward policy dimensions associated with a particular entrepreneurship strategy, the less effective the organization is likely to be. These arguments lead to the following proposition:

■ Proposition 2: The tighter the matching of entrepreneurship strategy with reward policy dimensions, the more effective the organization can be.

Discussion

Little effort has been devoted to the issue of these conceptual principles and action levels that constitute an entrepreneurship strategy and organization. The framework discussed in this paper provides some answers. Four different types of entrepreneurship strategies—explorer, creator, master, and top of the class—have been described. A typology of organization's strategy based on two dimensions of focus on the entrepreneurship—proactive shaping the environment and the firm's development—has been proposed. More specifically, the work emphasizes competency development versus exploitation of opportunities. Combining these two dimensions into a single framework creates a tool for analyzing specific situations in order to see where a firm lies within the portfolio. The intersection of these two dimensions creates a fertile and unique intellectual space to focus on strategic behavior in order to explain entrepreneurial success.

Moreover, the relationship between entrepreneurship strategies and reward policies has been investigated. The starting point is the premise that effectiveness in realizing intended reward policies depends significantly on the existence of a match between strategy, organization, and environment. The argument is that a firm's relative choices concerning reward policies will depend on its competencies and the nature of the organization's environment. It was assumed that different sets of reward policies support each type of entrepreneurship strategy. The discussion provided an opportunity to state propositions concerning matching between entrepreneurship strategies and reward policies. However, this theory needs to be tested by investigating suggested propositions more deeply. Only empirical evidence can help to choose among theories or modify them to reflect reality more closely. It is extremely important to understand how to measure the entrepreneurship strategy the firm adopts, and how to identify specific reward policies that match certain type of entrepreneurship strategy. In our view, it is necessary to introduce a tool that managers can use to gain a knowledge of entrepreneurship strategy and reward policies. Such a questionnaire can significantly benefit organizations and is of value to practitioners and academic researchers.

Future research into entrepreneurship strategy activity might also focus on further clarifying the conditions under which various options can be chosen and in which situations each may be appropriate. Future research should focus on analyzing questions of which reward policy dimensions are most conducive to fostering certain entrepreneurship strategies as well as aligning these strategic choices with the four different types of entrepreneurship strategies—explorer, creator, master, and top of the class. There are also questions about the extent to which effective reward policies are reproducible across organizations. Reward policies, from the perspective of corporate entrepreneurship, are an important area for future research, and more research is still needed. This study high-

lights that such future research on reward policies will need to be multidisciplinary and consider experience from the other fields.

This framework offers a unique way to understand the processes of corporate entrepreneurship. Its strength lies in two key areas. First, and central to the framework, is the discussion for helping managers address the process of corporate entrepreneurship and develop coherent reward policies that support business strategy. Second, the framework reveals some of the key problems and challenges that managers face when undertaking sustainable entrepreneurship in their organizations. The perspective used in the present paper has the distinct advantage of providing a more integrated perspective of the reward issues and corporate entrepreneurship.

References:

- Armstrong, M., Stephens, T. (2005), *Employee Reward Management and Practice*, Kogan Page: United Kingdom, London.
- Balkin, D. B., Gomez-Mejia, L. R. (1990), "Matching Compensation and Organizational Strategies," *Strategic Management Journal*, 11: 153–169.
- Barkema, H. G., Gomez-Mejia, L. R. (1998), "Managerial Compensation and Firm Performance: A General Research Framework," *Academy of Management Journal*, 41: 135–145.
- Boyd, B., Salamin, A. (2001), "Strategic Reward Systems: A Contingency Model of Pay System Design," *Strategic Management Journal*, 22: 777–792.
- Carpenter, M. A., Sanders, W. G. (2002), "Top Management Team Compensation: The Missing Link between CEO Pay and Firm Performance?" *Strategic Management Journal*, 23: 367–375.
- Daft, R. L. (2000), *Organization Theory and Design* (7th edition). Cincinnati: South-Western College Publishing.
- Dagnino, G. B., Mariani, M. (2004), "Multilevel Learning and Dynamic Gap Bridging: Firm Role in Capability Space and Opportunity Space Co-Evolution," paper presented at the 24th Strategic Management Society Annual Conference, San Juan.
- Dess, G. G., Lumpkin, G. T. (2005), "The Role of Entrepreneurial Orientation in Stimulating Effective Corporate Entrepreneurship," *Academy of Management Executive*, 19: 147–156.
- Finkelstein, S., Boyd, B. K. (1998), "How Much Does the CEO Matter? The Role of Managerial Discretion in the Setting of CEO Compensation," *Academy of Management Journal*, 41: 179–199.
- Garg, V. K., Walters, B. A., Priem, R. L. (2003), "Chief Executive Scanning Emphases, Environmental Dynamism, and Manufacturing Firm Performance," *Strategic Management Journal*, 24: 725–744.
- Gerhart, B., Milkovich, G. T. (1990), "Organizational Differences in Managerial Compensation and Financial Performance," *Academy of Management Journal*, 13: 663–691.
- Gomez-Mejia, L. (1992), "Structure and Process of Diversification, Compensation Strategy, and Firm Performance," *Strategic Management Journal*, 13: 391–397.
- Hoskisson, R. E., Busenitz, L. W. (2002), "Market Uncertainty and Learning Distance in Corporate Entrepreneurship Entry Mode Choice," in M. A. Hitt, R. D. Ireland, S. M. Camp, D. L. Sexton (Editors), *Strategic Entrepreneurship: Creating a New Mindset*: 151–172. Oxford: Blackwell.

- Kerr, J. (1985), "Diversification Strategies and Managerial Rewards: An Empirical Study," *Academy of Management Journal*, 28: 155–179.
- Kuratko, D. F., Ireland, R. D., Hornsby, J. S. (2001), "Improving Firm Performance through Entrepreneurial Actions: Acordia's Corporate Entrepreneurship Strategy," *Academy of Management Executive*, 15(4): 60–71.
- Milkovich, G. T. (1988), "A Strategic Perspective to Compensation Management," in Rowland, K., Ferris, G. (Editors), *Research in Personnel and Human Resources Management*, Greenwich: JAI Press.
- Miller, D. (2003), "An Asymmetry-Based View of Advantage: Towards an Attainable Sustainability," *Strategic Management Journal*, 24: 961–976.
- Montemayor, E. F. (1996), "Congruence between Pay Policy and Competitive Strategy in High-Performing Firms," *Journal of Management*, 22: 889–908.
- Morris, M. H., Jones, F. F. (1993), "HRM Practices and Corporate Entrepreneurship: An Empirical Assessment from the U.S.A.," *The International Journal of HRM*, 4: 873–895.
- Salter, M. S. (1973), "Tailor Incentive Compensation to Strategy," *Harvard Business Review*, March–April, 94–102.
- Shane, S. (2003), *A General Theory of Entrepreneurship: The Individual – Opportunity Nexus*, Cheltenham / Northampton: Edward Elgar.
- Stroh, L. K., Brett, J. M., Baumann, J. P., Reilly, A. (1996), "Agency Theory and Variable Pay Compensation Strategies," *Academy of Management Journal*, 39: 751–767.
- Wickham, P. A. (2001), *Strategic Entrepreneurship: A Decision-Making Approach to New Venture Creation and Management*, Harlow: Financial Times / Prentice Hall.
- Zahra, S. A., Neubaum, D. O., El-Hagrassey, G. M. (2002), "Competitive Analysis and New Venture Performance: Understanding the Impact of Strategic Uncertainty and Venture Origin," *Entrepreneurship Theory & Practice*, 27: 1–28.

Magdalena Majowska – M.Sc., researcher and lecturer at the Chair in Human Resource Management at the Karol Adamiecki University of Economics in Katowice, Poland. She has published over twenty papers in the fields of human resource management and entrepreneurship. In her current research work she focuses on reward policy, entrepreneurship strategy, and organizational performance. She has participated in many international conferences e.g. British Academy of Management (BAM), European Institute for Advanced Studies in Management (EIASM), Academy of Human Resource Development (AHRD). Her research results were also presented at the European Reward Management Conference and the Strategic Human Resource Management Conference.

Mariusz Bratnicki – Ph.D., a full professor in management and organization theory. He received his Ph.D. in 1975 from the Institute of Organisation and Management at the Polish Academy of Sciences in Warsaw. He is the Head of the Chair of Entrepreneurship at the Karol Adamiecki University of Economics in Katowice, Poland. His current research areas include corporate entrepreneurship, entrepreneurial learning, dialectics of entrepreneurship, high performing organizations, and performance measurement.

He is a member of the Academy of Management, Strategic Management Society, British Academy of Management, International Council for Small Business, and the Polish Academy of Sciences.

J a n u s z S t r u ż y n a – Ph.D., a full professor, Head of the Chair of Human Resource Management at the Karol Adamiecki University of Economics in Katowice. He has over one hundred publications in human resource management and management theory. His research interests focus on issues in human resource management, and human capital with particular emphasis on the issue of evolution and change in HRM. During his career, he has been a participant of many conferences and worked as a consultant for many business and public organizations.