

# Organizational Internal Factors, Corporate Entrepreneurship, and Organizational Performance

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*This research was financed by Directorate General of Higher Education, Ministry of Education, Research and Technology, Indonesia.*

## Abstract

The purpose of this study is to examine and explain the effect of: a) top management support on corporate entrepreneurship, b) supportive organizational structure on corporate entrepreneurship, c) resources availability on corporate entrepreneurship, d) reward system on corporate entrepreneurship, e) work discretion on corporate entrepreneurship, f) corporate entrepreneurship on financial performance, and g) corporate entrepreneurship on non financial performance. The data collection was done using a survey. The sample of this study was manager or director of Bank Sulselbar, regional development bank in South Sulawesi and West Sulawesi Province in Indonesia with 97 questionnaires were distributed with 91.78% response rate. The data were analyzed using Generalized Structured Component Analysis (GSCA). The result reveals that: a) top management support has a positive and significant effect on corporate entrepreneurship, b) supportive organizational structure has a positive but not significant effect on corporate entrepreneurship, c) resources availability has negative and not significant effect on corporate entrepreneurship, d) reward system has positive and significant effect on corporate entrepreneurship, e) work discretion has positive and significant effect on corporate entrepreneurship, f) corporate entrepreneurship has a positive and significant effect on financial performance, and g) corporate entrepreneurship has a positive and significant effect on non financial performance.

**Keywords:** top management support, supportive organizational structure, resources availability, reward system, work discretion, corporate entrepreneurship, organizational performance

## 1. Introduction

Regional development bank of South Sulawesi and West Sulawesi in Indonesia, named Bank Sulselbar, has a strategic role in supporting the regional economics. Bank Sulselbar can be more competitive compared to other banks as it dominates the operational networking in the both provinces, South Sulawesi and West Sulawesi in Indonesia. One way to maintain the sustainability of Bank Sulselbar is by unlimiting its production offered as well as operational region. This would give advantages to Bank Sulselbar to expand in order to compete with other banks. Bank Sulselbar is demanded to increase its financial and non financial performances.

The organizational capability must be improved to be able to respond to fast changing business environment. Organizations including the banks should always be trying to improve its competitiveness by generating unique capabilities, developing innovative culture and entrepreneurial culture. This argument has been justified by the increased attention given by many researchers to study the interaction between corporate entrepreneurship and its impact on organizational performance (Zahra, 1991; Zahra and Covin, 1995; Nath, 1997; Covin and Miles, 1999; Ferreira, 2002; Antoncic and Hisrich, 2004; Antoncic and Scarlat, 2005; Kolakovic et al., 2005; Zain, and Hassan, 2007; Chen and Cangahuala, 2010; Mokaya, 2012; Moshtaghi et al., 2012; Shamdudin et al., 2012).

Several studies have been conducted in the field of entrepreneurship, entrepreneurial orientation, intrapreneurship and corporate entrepreneurship in the United States and other developed countries (Fitzsimmons et al., 2005). The findings of the research conducted in the United States and other countries, particularly Asia, cannot be generalized. Meanwhile, the theoretical studies of corporate entrepreneurship are then entered in a multidimensional basically require deeper study. Constructs that have been developed by researchers show progress and reinforce theoretical concepts of Covin and Slevin (1991). Some research indicates that organizational internal factors have positive influences on corporate entrepreneurship (Antoncic and Hisrich, 2001; Hornsby et al., 2002; Morris and Kuratko, 2002; and Scheepers et al., 2008). However, another research showing that there is no significant relationship between several organizational internal factors,

particularly resource availability and supportive dimensions of organizational structure, with corporate entrepreneurship (Hough and Gerlach, 2008). The results of the study Zahra (1991); Zahra and Covin (1995); Lumpkin and Dess (1996); Antoncic and Zorn (2004); Actants and Bulut (2008); Antoncic and Scarlat (2008); Lekmat and Selvarajah (2008); Mahmood and Wahid (2012); Shamsudin et al. (2012) show that corporate entrepreneurship/intrepreneurial behavior (IB), namely: innovation, proactive, and risk-taking, is positively related to organizational performance. There are several studies also indicate that no significant effect on corporate entrepreneurship associated with organizational performance (Wiklund and Shepherd, 2005; Kolakovick, 2006). In fact, there are also studies indicating that the innovativeness dimension of corporate entrepreneurship does not affect the performance of the organization (Chen and Cangahuala, 2010; Shamsuddin et al., 2012). In previous research, many studies using financial performance as a result of corporate entrepreneurship indicators. This study will also attempt to provide evidence that non financial factors are also indicators for the outcome of corporate entrepreneurship, especially in the banking company.

This study will become main research in the area of banking industry, particularly with a focus antecedents and influences entrepreneurial activity. This study will be built from the conceptual model of corporate entrepreneurship Covin and Slevin (1991) and corroborated by the results of studies showing the relationship of internal factors of organization with corporate entrepreneurship (Antoncic and Hisrich 2001; Hornsby et al., 2002; Morris and Kuratko, 2002; Scheepers et al., 2008). Research constructs develop the conceptual model proposed by Zahra (1991); Zahra and Covin (1995); Lumpkin and Dess (1996) which shows the relationship of corporate entrepreneurship and organizational performance and corroborated by the results of research Antoncic and Zorn (2004); Actants and Bulut (2008); Antoncic and Scarlat (2008); Mahmood and Wahid (2012); and Shamsuddin et al., (2012). A new theoretical framework will be developed for the empirical study of the banking sector in South Sulawesi and West Sulawesi. This study will examine the relationship between organizational internal factors with corporate entrepreneurship which will further affect the performance of financial and non-financial performance in the form of job satisfaction, customer satisfaction, and innovation performance. This is an explanatory research with the purpose of the research is based on a predefined and tested hypothesis that certain studies in order to determine the ability of the application of existing theories in the context of regional banking in South Sulawesi and West Sulawesi of Indonesia.

The above description of research problems is very important issues to be investigated for the development of entrepreneurship, especially relating to the organizational internal factors, corporate entrepreneurship, and organizational performance. The purpose of this study is to explain: (1) relationship between top management support and corporate entrepreneurship; (2) relationship between supportive organizational structure and corporate entrepreneurship; (3) relationship between resources availability and corporate entrepreneurship; (4) relationship between reward system and corporate entrepreneurship, (5) relationship between work discretion and corporate entrepreneurship; (6) relationship between corporate entrepreneurship and financial performance; and (7) relationship between corporate entrepreneurship and non financial performance on Bank Sulsebar, regional development bank in Indonesia. This research is very important for knowledge development in the field of corporate entrepreneurship and also a very important role as part of efforts to improve the business performance of the regional development bank, which in turn will boost the regional economy. The present study is aimed at measuring the effect of organizational internal factors on corporate entrepreneurship by looking at five internal factors and to analyze the effects on financial and non financial performance. This study provides new insights by dismantling organizational internal factors to more deeply understand the effects of five internal factors on corporate entrepreneurship. This study also evaluates how direct effects of five organizational internal factors on corporate entrepreneurship and further effects on organizational performance.

## **2. Literature Review, Hypothesis, and Research Model**

### *2.1 Organizational Internal Factors*

Every organization requires good environmental conditions in which innovation can be accepted and responded well. However, many organizations are not aware of when and how should an organization change in order to develop and promote corporate entrepreneurship. Hornsby et al., (1993) says that there are five organizational internal factors that can support the implementation of corporate entrepreneurship, namely: top management support, supportive organizational structure, resource availability, rewards system, and work discretion.

#### *2.1.1 Top Management Support*

Top management support is the desire of top managers to facilitate and promote entrepreneurial activities within the organization, including championing innovative ideas and also providing the necessary resources (Hornsby et al., 1993; Hisrich et al., 2008). The level of top management desires in supporting the implementation of corporate entrepreneurship is the best thing to maximize the outcomes of corporate entrepreneurship.

Entrepreneurial activity in a company or corporate entrepreneurship can be implemented when there is support from top management (Stevenson and Jarillo, 1990; Kuratko et al., 1993).

#### *2.1.2 Supportive Organizational Structure*

In developing corporate entrepreneurship, the organization should establish a strong supportive structure which allows management to behave in a flexible and innovative entrepreneurial activities in the development of the organization (Hisrich et al., 2008). Supporting organizational structure is designed according to the work flow setting, communication, and relationships of authority within the organization which will indicate the administrative mechanism used to evaluate, select and implement ideas/innovative ideas offered (Covin and Slevin, 1991; Zahra, 1991, 1993; Brazeal, 1996; Hornsby et al., 1993; and Hisrich et al., 2008).

#### *2.1.3 Resource Availability*

Implementation of corporate entrepreneurship should be supported by resources availability including time in order to facilitate the implementation of the experiment or research to produce innovative goods and services (Covin and Slevin, 1991, Hisrich et al., 2008). Employees are entitled to see the availability of resources for innovation activities in order to encourage them to experiment and take risks (Hornsby et al., 1993; Hisrich et al., 2008). Resources availability is defined as the time provided to design an appropriate workload to ensure that employees have the time needed to pursue innovation and structuring their work in a way that supports the organization's efforts to achieve short term and long term goal. Availability of time can be measured with the workload is not too heavy (design methods of work), the right amount of time and workload, less time to think about the broader issues of the organization, working with limited time and the time for solving the problem of long-term (Hisrich et al., 2008; Hisrich and Kearney, 2012).

#### *2.1.4 Rewards System*

Reward system is a system used in order to motivate employees to engage in innovative behavior that will support the realization of corporate entrepreneurship activities. An effective reward system is the one that spurs entrepreneurial activity by considering the goals, feedback, emphasis on responsibility and results-based incentives (Hornsby et al., 1993; Hisrich et al., 2008). Appropriate reward system may affect the implementation of corporate entrepreneurship activities (Hornsby et al., 1993; Lau & Ngo, 2004; Cohen, 2002; Kuratko et al., 1993; Kuratko, et al., 2001; Barringer and Milkovich, 1998; Kuratko and Hornsby, 2002; Sathe, 2003; De Jong and Wennekers, 2008).

#### *2.1.5 Work Discretion*

Work discretion (freedom to work) is the granting of autonomy to the employees in the work. Therefore, autonomous work units should be developed to encourage freedom in action. Work discretion (freedom to work) refers to the extent to which autonomy is given to the entrepreneurial efforts. However, the effectiveness could be threatened by a lack of coordination and ongoing support from superiors. Excessive decentralization can lead to inefficiencies such as duplication of efforts and wastage of resources used in projects that are still questioning its feasibility. Therefore, changes in organizational structure and in order to be able to run a pilot project, all the efforts should be measured and monitored. This requires a balance between patience and budget to be able to tolerate exploration of group autonomy and power to reduce activities that do not produce anything. Work discretion can be measured with the freedom to develop ideas, to be the boss of oneself, the freedom in working methods, assessment autonomy, autonomy capability, autonomy in choosing a business idea, autonomy in decision making, and job autonomy (Hornsby et al., 2002).

#### *a. Corporate Entrepreneurship*

The concept of corporate entrepreneurship emerged in the last four decades and has relatively different understanding among experts/resource references. Ferreira (2002) stated that corporate entrepreneurship is an emerging new research, but until now the definitions used differently by the experts. Differences in terminology used by researchers when discussing aspects of corporate entrepreneurship is for example corporate venturing (Sharma and Chrisman 1999), internal corporate venturing (Jones and Butler 1992), intrapreneurship (Antoncic and Hisrich 2001; Carrier 1997; Fitzsimmons et al., 2005), entrepreneurial management (Stevenson and Jarillo 1990), entrepreneurial orientation (Lumpkin and Dess 1996), and entrepreneurial posture (Covin and Slevin 1991). According to Lumpkin and Dess (1996, 2001), organizations that are entrepreneurial or corporate entrepreneurship has three key attributes of innovativeness, proactiveness, and risk-taking. Innovativeness dimension refers to the tendency of companies involved in the development of new ideas, introducing the creative process that leads to novelty products, services, or technological advances (Lumpkin and Dess, 1996; 2001; Morris and Kuratko, 2002; Wiklund and Shepherd, 2005; Karimi et al., 2011; Karacaoglu et al., 2013;). Dimensions of proactiveness demonstrated meeting the needs of the market chances by being the first mover in the market. The purpose of the organization is to enlarge the existing market by gaining a first mover advantage

in the competition, encouraging companies to change the strategy of entering the market by providing novelty products and services that will ultimately affect the performance to innovate (Lumpkin and Dess, 2001; Bulut and Yilmaz, 2008). Dimensions of risk-taking that is readiness to provide the resources to exploit the opportunities and initiate projects although no uncertain outcome. The risk can be minimized with the knowledge of the organization or the organization has the opportunity and the technology or the unique ability to exploit opportunities (Morris and Kuratko, 2002).

#### *b. Organizational Performance*

Organizational performance is an indicator of the level of achievement that can be achieved and reflects the success of the manager/entrepreneur. Performance is the outcome of the behavior of members of the organization. Performance of the organization is the desired outcome of the organizational behavior of the people in it. Assessment of organizational performance can be evaluated from the company's financial ratios. Profitability is a measure of the success of the company's operations. The company is said to have a competitive advantage if it has a high rate of profit of the average normal rate of profit. This profit level is expressed in several ratios such as return on assets ratio, return on equity ratio, and the ratio of return on sales (Fitzsimmons et al, 2005). For long term periods, the measurement model that focuses on financial measures are acceptable. However, there are many aspects of business that can not be evaluated with financial performance. Non-financial performance measurement is important for companies to know how far the human aspect, the aspect of customers, and other organizational aspects of the work. Non-financial performance measurement in this study will focus on employee satisfaction, customer satisfaction, and innovation performance of regional development banks.

#### *c. Top Management Support and Corporate Entrepreneurship*

Previous researches indicate that organizational internal factors has positive influence on corporate entrepreneurship (Antoncic and Hisrich, 2001; Hornsby et al., 2002; Morris and Kuratko, 2002; Chen et al., 2005; Scheepers et al., 2008; and Ahmad et al., 2012). Top management support, a manager wishes to facilitate and promote entrepreneurial activity within the company (Hisrich and Peters, 1986; Sathe, 1989; Stevenson and Jarillo, 1990; Kuratko et al., 1993; Pearce et al., 1997; Chen et al., 2005; Ahmad et al., 2012). Management support can take the form of gift-giving to employees who have ideas/innovative ideas, provide needed resources, or instituting entrepreneurial activity in the systems and processes of the company. In addition, top management support refers to the extent to which managers encourage employees to believe that innovation is a part of everyone in the company. Managers also want to facilitate and develop entrepreneurial projects (Kuratko et al., 1993; Chen et al., 2005). The results of Chen et al., (2005) showed that the board of directors and management system consistently and positively associated with the development of corporate entrepreneurship within the organization. Chen et al., (2005) also said that the development of corporate entrepreneurship within the organization is also influenced by the senior executive share ownership and stock ownership outside directors, and the separation of the CEO of the board of directors of which there were an indicator of the system's board of directors and management. Some conditions support the idea of employee management is a rapid adoption, recognizing the man who brought the idea to the surface, practice creativity and innovation, supporting small-scale pilot projects, and invested the money in order to run the project (Hornsby et al., 1993).

#### *d. Supportive Organizational Structure and Corporate Entrepreneurship*

Supportive organizational structure is an organizational structure designed to support the realization of entrepreneurial activity within the company (Guth and Ginsberg, 1990; Covin and Slevin, 1991; Zahra, 1991, 1993; Brazeal, 1993; Hornsby et al., 1993). Supportive organizational structure of the regulation of the work flow, communication, and relationships of authority in the organizational structure. This structure also shows the administrative mechanism used to evaluate, select and implement ideas / innovative ideas offered (Goosen et al., 2002; Hough and Scheepers, 2008). Bureaucratic organizational structure led to the limitation, preventing detection of problems outside of work. Employees should be encouraged to look at the organization as a whole. Organizations should avoid high standard operating procedures for all types of jobs and reduce dependence on a limited job description and performance standards are rigid (Hornsby et al., 2002). Research results of Hough and Scheepers (2008) showed that there is a positive relationship between supportive organizational structure and innovativeness, and no association between supportive organizational structure and proactiveness. This shows that when organizations loosen restrictions, employees are encouraged to produce innovative things, but did not affect employees proactiveness. Within the constraints of a flexible organization, job autonomy or freedom to work in carrying out a task or making a decision, the lack of standard operating procedures, written



rules, administrative processes, supportive organizational structure, can promote the establishment of intrapreneurial behavior (Bhardwarj, Sushil & Momaya, 2007). On the other hand, the limitation in organizations that must comply with regulations and administrative procedures do not affect the behavior even intrapreneurial (Ahmad et al., 2012).

*e. Resource Availability and Corporate Entrepreneurship*

Resource availability (including the availability of time) is the availability of resources to support the implementation of corporate entrepreneurship. Accordingly, employees should take advantage of the availability of resources for innovative activities (Das and Teng, 1997; Slevin and Covin, 1997). Availability of resources will encourage experimentation and risk-taking behaviors in order to produce something innovative. To consider an entrepreneurial act, employees need to understand the availability of resources accessible to the activities of corporate entrepreneurship (Covin and Slevin, 1991; Kreiser et al., 2002). New and innovative ideas can be developed if the employee has time required. Organizations need to consider the rational distribution of work so as to enable the employee to work with others on a long-term problem solving. In an entrepreneurial work environment, employees are allowed to do creative and experiment to the extent of their work time (Scheepers et al., 2008). Availability of resources is intended to evaluate the workload to ensure that employees have the time needed to pursue and make innovations and that their jobs are structured to support the achievement of organizational short term and long term goals (Hornsby, Holt, and Kuratko, 2008). According to De Jong and Wennekers (2008), the availability of resources is one of the important factors that could encourage corporate entrepreneurship / intrapreneurship. Time and physical resources are necessary to facilitate the individuals in the organization to engage in innovative activities.

*f. Reward System and Corporate Entrepreneurship*

Reward and reinforcement is to motivate people to engage in innovative behavior (Hornsby et al., 1993; Lau & Ngo 2004). Companies provide rewards that are part of the performance, providing a challenge, increase the responsibility and make the idea of innovative people known to others in the organization (Cohen 2002; Hornsby et al., 1993). This factor confirms the belief that employees want to work for a new project and want to reward note (Kuratko et al., 1993; Kuratko, et al., 2001). However, it is also a failure to achieve results. Mistakes are not an important reason for revoke a project or eliminating corporate entrepreneur. People can learn from mistakes and it will become more valuable to the company. Some experts also stressed that an effective reward system that spurs entrepreneurial activity must consider goals, feedback, individual responsibility, and results-based incentives (Barringer and Milkovich, 1998; Kuratko and Hornsby, 2002; Sathe, 2003;). According to De Jong and Wennekers (2008), the availability of rewards is an important factor that can encourage the implementation of corporate entrepreneurship / intrapreneurship because the financial resources necessary to facilitate the individuals in the organization to engage in innovative activities. The use of appropriate rewards can also extend middle manager wishes to estimate the risk associated with entrepreneurial activity.

*g. Work Discretion and Corporate Entrepreneurship*

Work is also commonly referred discretion or autonomy reflects the commitment of top management to accept failure, giving the freedom to make decisions, and give authority to the manager (Kuratko et al., 2005). In introducing intrapreneurial behavior, organizations need to give freedom to their employees to make decisions about its working process and avoidance of criticism when things go wrong in the innovation process is done (and Hodgetss Kuratko, 2007). According to Hough and Scheepers (2008), work discretion denoting the extent to which employees are empowered and independent functioning in their work with the work that is believed to be very effective. In an entrepreneurial environment, employees are allowed to make their own decisions about the work process of each and rarely gets criticized for errors that occur in the process of innovation (Hornsby et al., 2002). The research results of Rutherford and Holt (2007) showed that the autonomy or freedom given to make a decision can trigger innovation in companies. Internal factors impacted the organization is an important element in instilling the entrepreneurial spirit among employees in the organization. Work discretion can positively influence corporate entrepreneurship.

*h. Corporate Entrepreneurship and Financial Performance*

The study results of Zahra (1991); Zahra and Covin (1995); Lumpkin and Dess (1996); Antoncic and Zorn (2004); Zain and Hasan (2007); Actants and Bulut (2008); Antoncic and Scarlat (2008); Bulut and Yilmaz (2008); Lekmat and Selvarajah (2008); Chen and Cangahuala (2010); Arfaei et al., (2012); Mahmood and Wahid (2012); Shamsudin et al. (2012); and Karacaoglu et al., (2013) show that corporate

entrepreneurship/intrepreneurial behavior (IB), namely: innovation, proactive, and risk-taking, is positively related to organizational performance. There are several studies that show no significant relationship between corporate entrepreneurship and organizational performance (Wiklund and Shepherd, 2005; Kolakovick 2006, and Karacaoglu et al., 2013). In fact, there are also studies showing that the innovativeness dimension of corporate entrepreneurship does not affect the performance of the organization (Chen and Cangahuala, 2010; Shamsuddin et al., 2012).

Morris et al. (2008) define corporate entrepreneurship as entrepreneurial behavior in organizations that have a well-established medium-sized or large, while Zahra and Garvis (2000) define corporate entrepreneurship as a number of the company's efforts aimed at innovation, pro-activeness and risk-taking. Lumpkin and Dess (1996) says that corporate entrepreneurship can be used to improve the performance of the company by taking into account product and process innovation. Researchers generally agree that corporate entrepreneurship consist of three dimensions that has been recognized, namely innovativeness, proactiveness, and risk-taking (Lumpkin & Dess, 2001). Research conducted by Mahmood and Wahid (2012) examined whether the activities and behavior of entrepreneurial or corporate entrepreneurship encouraged the entrepreneurial spirit within the organization so as to ensure the success of the bank in the long run. The results show that there is a positive and significant relationship between corporate entrepreneurship and performance of banks in Malaysia. Aktan and Bulut (2008) also conducted a study that tested the effect of four sub-dimensions of corporate entrepreneurship (pro-activeness, risk-taking, innovativeness, and competitive aggressiveness) to the financial performance of 312 companies. This study uses the return on investment (ROI), return on equity (ROE), growth of sales and market-based measurement and concluded that all the relationships between the dimensions of corporate entrepreneurship and financial performance is positive and significant.

Organizational performance is an indicator of the achievement level that can be obtained and reflects the success of the manager/entrepreneur. Performance is the outcome reached from behavior of the organizational members. So the performance of the organization is the desired outcome of the organizational behavior of the people in it. Assessment of organizational performance can be evaluated from the aspects of financial and non-financial. Aspects of financial and non-financial (operational) companies are interrelated. Several studies have shown that the company's performance is a multidimensional concept. In the performance of the company, the focus is always on the financial side. Investors and shareholders are always interested to know the condition of the company's performance. Financial information (ROI, ROE, sales growth, profitability) is the most explicit information and valid among other performance dimensions. Financial performance demonstrates the ability of the company generate new resources from daily operations in a particular period. However, the measurement of non-financial performance is also important. The most common performance measurement in the study of corporate entrepreneurship is growth and profitability. The results of the organization is seen as a result of increased entrepreneurship in existing firms (Covin and Slevin 1991) and the results of the study support the positive relationship between corporate entrepreneurship and financial performance (Covin and Covin 1990; Zahra, 1991, 1993b; Naman and Slevin 1993; Zahra and Covin 1995; Dess et al., 1997; Wiklund 1999; Antoncic and Hisrich, 2001, 2004; Shamsuddin et al., 2012; Karacaogly et al., 2013). Therefore, the expected corporate entrepreneurship is positively associated with financial performance.

#### *i. Corporate Entrepreneurship and Non Financial Performance*

In previous research, many studies using financial performance as a result of corporate entrepreneurship indicators. This study will also attempt to provide evidence that non-financial factors can be used as indicators for the outcome of corporate entrepreneurship (Bulut and Yilmaz, 2008; Chen and Cangahuala, 2010; and Arfaei et al., 2012) especially in banking sector. This study will become main research areas in banking industry, particularly with a focus on antecedents and influences of entrepreneurial activity. This study will be built from the conceptual model of corporate entrepreneurship Covin and Slevin (1991) and corroborated by the results of studies showing the relationship of organizational internal factors with corporate entrepreneurship (Antoncic and Hisrich 2001; Hornsby et al., 2002; Morris and Kuratko, 2002; Scheepers et al., 2008). Research constructs developed conceptual model proposed by Zahra (1991); Zahra and Covin (1995); Lumpkin and Dess (1996) which shows the relationship of corporate entrepreneurship and organizational performance and corroborated by the research results of Antoncic and Zorn (2004); Actants and Bulut (2008); Antoncic and Scarlat (2008); Mahmood and Wahid (2012); and Shamsuddin et al., (2012).

To facilitate and promote entrepreneurial behavior within the company, top management should seek to put forward innovative ideas and provide the resources needed to undertake entrepreneurial activities (Kuratko et al., 2005). The higher the top management wishes to encourage entrepreneurial behavior, the higher the corporate entrepreneurship outcomes that can be achieved (Bhardwarj et al., 2007). The research result of Holt et al. (2007)

showed that providing management support variations in instilling entrepreneurial behavior. Along with the results of Rutherford and Holt (2007) who said that the way top management instill entrepreneurial behavior and spread the entrepreneurial mindset in the organization will influence the behavior of employees. Management support in encouraging a change in attitude of the employees will encourage employees to embrace the culture of entrepreneurship within the organization.

The behavior of corporate entrepreneurship / intrapreneurship associated with positive outcomes at the level of individual or organizational level. At the individual level, the results are often associated with high job satisfaction and commitment in the workplace (Holt, Rutherford, and Clohessy, 2007). At the organizational level, the positive results realized in the form of profitability and better corporate performance (Zahra and Covin, 1995; Zahra and Garvis, 2000). Lumpkin and Dess (2005), when the proposed research framework that examines the relationship between corporate entrepreneurship / intrapreneurship and the performance of the company, said that in addition to the measurement of financial performance such growth, market share, and profitability is important, non-financial performance measures are equally important in the study of the field entrepreneurial. Satisfaction and commitment to the organization's members are non-factors suggested by Lumpkin financial and Dess (2005). Job satisfaction and affective commitment reflects the condition of pleasant emotions that arise from the evaluation of the employee's work and the emotions associated with the organization. Satisfaction and employee commitment has been linked to the degree of motivation that can be translated into job satisfaction. High job satisfaction at the individual level will result in greater organizational effectiveness. The results of the study of Ahmad et al. (2012) indicates that intrapreneurial behavior is positively related to job satisfaction. This reflects that the working environment is essential for growing intrapreneurial culture that can generate growth and sustainability of the organization in the long run.

Corporate entrepreneurship is a set of activities that allows to exploit the competitive advantage and organizational innovation in the approach to the institutionalization of innovation in the organization (Kuratko et al., 2005). Corporate entrepreneurship is the concept of an organization's commitment to create and deploy new products, new processes and systems of the modern organization. In creating innovative products, companies need to consider the quality of products and services so as to give satisfaction to the consumer. Level of customer satisfaction is an important criterion for measuring the quality of the product. The importance of customers and satisfaction is something that competes on a global level. Consumer satisfaction is an experience that is influenced by two factors: expectations and service performance (Yi, 1989). Consumer dissatisfaction is a situation caused by the perception of the quality of products and services (Biggs and Swailes, 2006). Many researchers who study the relationship between corporate entrepreneurship and organizational performance and customer satisfaction is one form of organizational performance. In his research, Covin et al. (2006) evaluated the effect of the amount of corporate entrepreneurial sales and research results showed no effect on the growth of sales of corporate entrepreneurs are positive and significant. Research Arfaei et al. (2012) gives the result that there is a positive and significant relationship between corporate entrepreneurship and consumer satisfaction.

The main purpose of corporate entrepreneurship is creating the organizational structure and culture that is dynamic, flexible and competitive in order to cope with intense competition and a dynamic market. Corporate entrepreneurship is a mix of strategy orientation consists of four dimensions, namely innovativeness, risk-taking, proactiveness, and competitive aggressiveness (Dess et al., 2003; Bulut and Yilmaz, 2008). Innovativeness is an organizational tendency to introduce novelty through experimentation and research for the development of products, services, and processes (Dess and Lumpkin, 2005). This will affect the overall performance of the company by increasing the organization's capacity to innovate. Risk-taking firm is conceptualized as an orientation to the initiation of a new organization with the purpose of profit and growth of the company by taking into account possible losses (Keh et al., 2002). Companies that successfully identify new markets or introducing new products and services into existing markets are risk-takers take advantage of market opportunities. Companies that increase the organization's capacity to innovate in order to maintain its competitive edge and also beat the competitor is a manifestation of taking calculated risks. Proactiveness shows how to meet market opportunities by being a first mover in the market. The purpose of the organization is to win the market by gaining a first mover advantage in the competition, prompting the company to change its strategy to enter the market with new products and services that can directly affect the performance to innovate. Competitive aggressiveness is the behavior of firms in the face of competition. Companies that are not able to take a new position to the increasing intensity of competition will be too late to enter emerging markets, considering the cost opportunity and create alternative strategies in order to survive in the competition (Birkinshaw et al., 2005). Companies that decide to gain market share, adopting an aggressive competitive behavior by implementing a new marketing strategy for example by competing with the price, increase promotion, combating distribution channels, or imitating competitor actions. These efforts of the company in beating competitor's performance by

increasing the competitive position in the market is limited and encouraging companies to be more innovative in marketing strategy. Research carried out by Bulut and Yilmaz (2008) reveals that the dimensions of corporate entrepreneurship, namely innovativeness, risk-taking, proactiveness, and competitive aggressiveness has a positive and significant relationship to the performance of the company's innovation. The results of Chen and Cangahuala (2010) shows that the three dimensions of corporate entrepreneurship, i.e. proactiveness, risk-taking, and innovativeness, not entirely affect innovation performance. Proactiveness is positively associated with innovation performance; this indicates that the capacity of the company can beat its competitors by introducing new products, services and technology markets. Risk-taking is positive but not significantly related to innovation performance, this reflects that managers are less willing to take risks and develop unclear strategies results. Innovativeness is not related to innovation performance, it indicates that the company is still lacking in the ability to produce new products or modify existing products to meet future demand.

In this study hypotheses are developed as the following:

- H<sub>1</sub> : Top management support has positive effect on corporate entrepreneurship.
- H<sub>2</sub> : Supporting organizational structure has positive effect on corporate entrepreneurship.
- H<sub>3</sub> : Resources availability has positive effect on corporate entrepreneurship.
- H<sub>4</sub> : Reward system has positive effect on corporate entrepreneurship.
- H<sub>5</sub> : Work discretion has positive effect on corporate entrepreneurship.
- H<sub>6</sub> : Corporate entrepreneurship has positive effect on financial performance
- H<sub>7</sub> : Corporate entrepreneurship has positive effect on non-financial performance

### 2.11 Conceptualization Model

Based on theoretical and empirical studies that have been described previously, the conceptual framework of the relationship between organizational internal factors, corporate entrepreneurship, and organizational performance can be visualized in Figure 1. Conceptualization model shows the relationships between variables. Organizational internal factors which consists of top management support (TMS), supportive organizational structure (SOS), resource availability (RA), reward system (RS), and work discretion (WD) are considered as independent variables, whereas corporate entrepreneurship (CE), financial performance (FP), and non financial performance (NFP) are the dependent variables. The following framework shows a model describing the relationships between all variables.

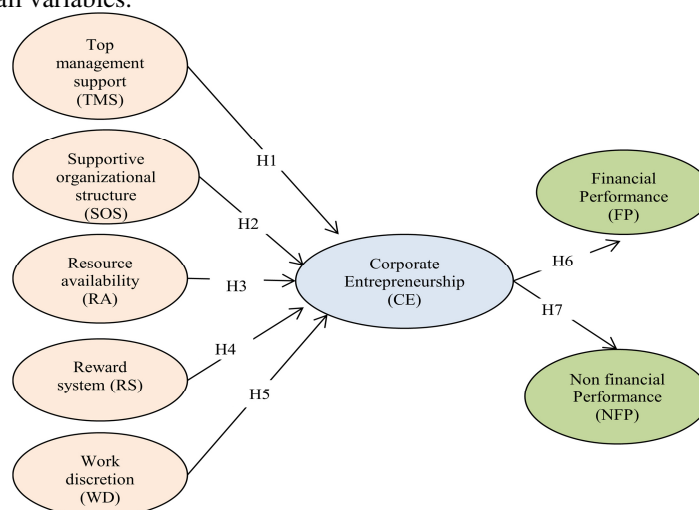


Figure 1. Research Framework

## 3. 3. Method

### 3.1 Purpose of the Research Study

The purpose of this study is to find out the impact of organizational internal factors: top management support, supportive organizational structure, resource availability, reward system, and work discretion on corporate entrepreneurship, and the impact of corporate entrepreneurship on financial performance and non financial performance of Bank Sulsebar, regional development bank in South Sulawesi and West Sulawesi Province in Indonesia.



### *3.2 Instrument and Sampling Unit*

A structured questionnaire was used for primary data collection. The targeted population is directors or managers of Bank Sulselbar, regional development bank in South Sulawesi and West Sulawesi Province of Indonesia. The data was collected using a survey which was carried out entirely in on stage. The questionnaires were distributed to 97 directors or managers of Bank Sulselbar.

The instrument of this research is questionnaire with closed-ended statements, where the statements are made in such a way that respondent's answer is limited to several options. For the survey, the questionnaire was designed using 7 points of semantic differential scale where respondent is asked to choose where his or her position lies, on a scale between two bipolar words, or a range of words or numbers ranging across a bipolar position; from 7 for strongly agree to 1 for strongly disagree. The questionnaires were distributed by direct visits to the company's premises which is also important to explain the purpose of the study.

In this research, top management support can be defined as managerial capability in supporting employees to think out creative and innovative ideas, providing resources required for implementing creative and innovative ideas, and supporting the entrepreneurial activities in organization. Supportive organizational structure is defined as organizational structure developed to assist administration mechanism in which ideas evaluated and selected to be implemented. Resource availability is defined as providing resources for innovative activities in supporting employees undertaking experiment and risk taking. Reward system can be defined as a system to trigger entrepreneurial activities which consider objective, feedback, stressing on responsibility and incentive based output. Work discretion can be defined as tolerant to failure.

Top management support, supportive organizational structure, resource availability, reward system, and work discretion was measured by using forty eight items adopted from Corporate Entrepreneurship Assessment Instrument developed by Kuratko and Hornsby (2002).

Corporate entrepreneurship is defined as entrepreneurial behavior in which renewal process is to improve and increase organizational competitiveness by creating and developing innovative products, services, technology, and production process, and administration process, market expansion in reaching organizational performances. Dimensions of corporate entrepreneurship are innovativeness, pro-activeness, and risk-taking which were developed by Lumpkin and Dess (1996). Innovativeness is defined as to which degree of company involve in developing new ideas, promoting creative process in product renewal, services, or technology advance. Innovativeness is measured by three items by asking respondents the degree of their perceptions. Pro-activeness is defined as to which degree organizational intention in anticipating market needs and opportunity in the future which may or may not be in accordance to current operational, such as promoting new products and services to satisfy consumers' needs. Pro-activeness is measured by three items by asking respondents the degree of their perceptions on initiatives to find new opportunity, become the first in marketing new product/services, and actively anticipating changes in consumers 'taste. Risk-taking is defined as to which degree management take risk. Measurement of risk-taking is by using three items by asking respondents the degree of their perceptions on producing high-risk product, entering new market, and taking risk in producing new type of product/service.

Organizational performance is defined as the end result of regional development bank activities which include financial and non financial performance. In this research, financial performance is defined as the financial performance indicators of regional development bank which include amount of financial capital, capital adequacy, total outstanding loans, amount of savings, ability to pay the debt, ability to control operating costs, ability to increase loan, and ability to make a profit. The financial performance is measured by using subjective assessments with nine items by asking respondents the degree of their firm performance. These measures were adapted from financial performance indicators of regional development bank in Indonesia. In this research, non financial performance is defined as the non financial performance indicators of regional development bank which include job satisfaction measured by five items (Bahia and Nantel, 2000), consumer satisfaction measured by six items (Smith, et al., 1969 in Ramayah et al., 2001; and Saari and Judge, 2004) and innovation performance measured by five items (Bank of Indonesia Report and Stivers et al., 1998) by asking respondents the degree of their performance.

### *3.3 Response Rate*

All questionnaires were distributed to directors or managers of Bank Sulselbar, regional development bank in South Sulawesi and West Sulawesi Province, Indonesia. The directors and managers chosen as respondents since they have the knowledge, ability, and accuracy of response to the statements in the questionnaire. The respondents were requested to answer all the questions to the best of their knowledge. Out of 97 questionnaires, there were only 89 returned. Thus, the response rate is 91.78%. After collecting data, the data was then coded and analyzed by using GSCA software.

### 3.4 Data Analysis

The data was analyzed using Generalized Structured Component Analysis (GSCA). GSCA is a component-based SEM method which can be used for calculating scores and which is allowed for small samples (Hwang and Takane, 2004; Hwang et al., 2010). This method is chosen for the following considerations: (1) the model in a conceptual framework consists of hierarchical causal relations, that top management support, supportive organizational structure, resource availability, reward system, and work discretion influence corporate entrepreneurship; (2) corporate entrepreneurship influence financial performance; (3) corporate entrepreneurship influence non financial performance; (4) in verifying the unidimensionality of various latent variable indicators both reflexive and formative, it is appropriate to use GSCA; (5) using GSCA does not need assumptions and can be performed on a series of latent variables simultaneously, hence a powerful and efficient method of analysis; (6) Based on Monte Carlo simulation that SEM model with GSCA have very good performance to small size sample, especially to  $50 \leq N \leq 200$  or all sample size  $N \geq 50$ .

## 4. Result and Discussion

### 4.1 Validity and Reliability of Research Construct

Validity and reliability test of the data is very important to be done before analyzing the data. Based on literature review, factors were identified and derived from famous model construct. Validity of top management support, supportive organizational structure, resource availability, reward system, work discretion, corporate entrepreneurship, financial performance, and non financial performance was very satisfactory. All items of latent variables are significant at .05 or  $CR > 1.96$ . These results indicate that all of items indicate good convergence validity. The value of AVE (Average Variance Extracted) for all latent variables is greater than .50. (Hwang et al., 2010), and therefore the latent variables have adequate discriminant validity. Therefore, the research instrument for measuring all latent variables has fulfilled the criteria for convergence validity and discriminant validity (Hwang et al., 2010).

The Cronbach's alpha was calculated to verify the internal reliability of the items. Nunnally (1978) suggested that a minimum alpha of 0.6 sufficed for early stage of research. The Cronbach alpha estimated for top management support was 0.911, supportive organizational structure was 0.807, resource availability was 0.911, reward system was 0.856, work discretion was 0.914, corporate entrepreneurship was 0.959, financial performance was 0.905, and non financial performance was 0.973. All constructs have adequate reliability as the Cronbach's alpha in this study were all much higher than 0.6.

### 4.2 Fitness Test of the Model

The fitness of the model test structurally is measured by using FIT and AFIT that equivalent with R-square total on path analysis or on PLS. FIT value shows total variance from all variables that can be explained by structural model. The FIT value ranges from zero to one. The higher the FIT value (closer to one), the higher the total variance can be explained by the model. AFIT value equivalent with R-square adjusted on regression analysis and it can be used for model comparison. If AFIT value in one model is higher than others, it shows that the model is the best to use.

Table 1: Model Fit

MODEL FIT	
FIT	0.556
AFIT	0.545
GFI	0.986
SRMR	0.337
NPAR	151

Structural model evaluation was performed after the model relationship was built in accordance with the data observation and goodness-of-fit models overall. Table 1 shows evident from the values of FIT, AFIT, GFI (unweighted least squares) and SRMR (standardized root mean square residual). The result of the test for relation among variables is evident from the values of path coefficient and critical point (CR), which is significant at  $\alpha = .05$ , as shown in Table 2. The goodness of fit of the structural model and overall model shows that the model specified in this research can explain 54.5% of the variance of the corrected data (adjusted FIT). Also, the value of  $GFI = .986$  and  $SRMR = .337$  shows that the model has sufficient fit since recommended  $GFI \geq .90$  and

SRMR is considered to be better when it is closer to zero (Solimun, 2010; Heungsun Hwang et al., 2010).

Tabel 2: Path Coefficient

Path	Path Coefficient			Intrepretation
	ESTIMATE	SE	CR	
TMS → CE	0.307	0.131	2.35*	supported
SOS → CE	0.136	0.146	0.93	not supported
RA -→ CE	-0.176	0.200	0.88	not supported
RS → CE	0.370	0.143	2.59*	supported
WD → CE	0.273	0.134	2.03*	supported
CE → FP	0.616	0.058	10.63*	supported
CE → NFP	0.780	0.063	12.44*	supported

\* = significant at .05 level

### 4.3 Hypothesis Testing

#### 4.3.1 Effects of Top Management Support on Corporate Entrepreneurship

H<sub>1</sub> claim that top management support has significant positive effects on the corporate entrepreneurship. The regression weight is significant. Table 2 shows that top management support is positively related to corporate entrepreneurship (b: 0.307; CR: 2.35). Research findings reinforce the theory stating that top management support may increase the implementation of corporate entrepreneurship (Covin and Slevin, 1991). This finding affirms the assumption mentioned that top management support has positive effect on corporate entrepreneurship (Antoncic and Hisrich, 2001; Hough and Scheepers, 2008).

#### 4.3.2 Effects of Supportive Organizational Structure on Corporate Entrepreneurship

H<sub>2</sub> claim that a firm's supportive organizational structure has no significant positive effects on corporate entrepreneurship. Table 2 shows that supportive organizational structure is positively related but not significant to corporate entrepreneurship (b: 0.136, CR: 0.93). Research finding weaken the theory stating that supportive organizational structure may increase the implementation of corporate entrepreneurship. The more supportive organizational structure is on place, the less corporate entrepreneurship implemented. This finding enfeebls the assumption mentioned that supportive organizational structure may increase the implementation of corporate entrepreneurship (Guth and Ginsberg, 1990; Covin and Slevin, 1991; Zahra, 1991, 1993; Brazeal, 1993; Hornsby et al., 1993).

#### 4.3.3 Effects of Resource Availability on Corporate Entrepreneurship

H<sub>3</sub> claims that a firm's resource availability has a significant positive effect on corporate entrepreneurship. The regression weight between resource availability and corporate entrepreneurship is negative and not significant (b: -0.176; CR: 0.88), out of support H<sub>3</sub>. It is emphasized that the path coefficient of resource availability on corporate entrepreneurship not only has an unexpected positive sign, but that the coefficient is negative. This finding supports research result of Hough and Scheepers (2008) that resource availability has no significant effect on corporate entrepreneurship. Nevertheless, this finding did not support Ahmad et al., (2012) that resource availability has positive and significant effect on corporate entrepreneurship.

#### 4.3.4 Effects of Reward System on Corporate Entrepreneurship

H<sub>4</sub> claims that a firm's reward system has a significant positive effect on corporate entrepreneurship. Table 2 shows that reward system is positively related to corporate entrepreneurship (b: 0.370; CR: 2.59), in support of H<sub>4</sub>. Research finding reinforces Hough and Scheepers (2008) that the more reward given to employees, the more innovative the employees would be. In addition, this finding support Ahmad et al., (2012) that reward system has a significant positive effect on corporate entrepreneurship.

#### 4.3.5 Effects of Work Discretion on Corporate Entrepreneurship

H<sub>5</sub> claims that work discretion in a firm has significant positive effect on corporate entrepreneurship. Table 2 indicates that work discretion is positively related to corporate entrepreneurship (b: 0.273; CR: 2.03), in support

of H<sub>5</sub>. Research finding reinforces the theory of corporate entrepreneurship that work discretion may assist the fostering the corporate entrepreneurship in an organization (Hornsby et al., 2002; Kuratko et al., 2005; Kuratko and Hodgetts, 2007; Rutherford and Holt, 2007; and Hough and Scheepers, 2008). This finding support Ahmad et al., (2012) that work discretion has significant positive effect on corporate entrepreneurship.

#### *4.3.6 Effects of Corporate Entrepreneurship on Financial Performance*

H<sub>6</sub> claims that corporate entrepreneurship has a significant positive effect on financial performance. Table 2 shows that corporate entrepreneurship is positively related to financial performance (b: 0.616; CR: 10.63), in support of H<sub>6</sub>. Research finding reinforce the theory of corporate entrepreneurship that having entrepreneurial behavior in an organization may increase financial performance (Lumpkin and Dess, 1996). This finding affirms the assumption mentioned that a firm's financial performance can be achieved through implementation of corporate entrepreneurship (Aktan and Bulut, 2008; Mahmood and Wahid, 2012).

#### *4.3.7 Effects of Corporate Entrepreneurship on Non Financial Performance*

H<sub>7</sub> claims that corporate entrepreneurship has a significant positive effect on non financial performance. Table 2 shows that corporate entrepreneurship is positively related to non financial performance (b: 0.780; CR: 12.44), in support of H<sub>7</sub>. Research finding reinforce the theory of corporate entrepreneurship that having entrepreneurial behavior in an organization may increase non financial performance in aspect of job satisfaction (Lumpkin and Dess, 2005). This finding affirms the assumption mentioned that corporate entrepreneurship has significant positive effect on non financial performance in aspect of job satisfaction (Ahmad et al., 2012). This finding support Arfaei et al. (2012) that corporate entrepreneurship is positively related to non financial performance in aspect of consumer satisfaction. This finding support Bulut and Yilmaz (2008) that corporate entrepreneurship has significant positive effect on a firm's innovative performance. Nevertheless, this finding do not fully support Chen and Cangahuala (2010) that proactiveness as one dimension of corporate entrepreneurship has positive effect on innovative performance, but risk taking has positive and not significant effect on innovative performance, and innovativeness has no relationship with innovative performance.

## **5. Theoretical and Managerial Implications**

The theoretical contribution of this research is to develop the science of corporate entrepreneurship especially in relation to having organizational internal factors such as top management support, supportive organizational structure, resource availability, reward system, and work discretion that can assist in fostering the firm's entrepreneurial behavior. The contribution of this research is also to develop a conceptual and theoretical understanding on corporate entrepreneurship in the effort to improve performance, especially for regional development bank. The result of this research brings additional evidence on organizational internal factors that influence corporate entrepreneurship, and then influence organizational performance.

The practical implication of this study is to provide insight and knowledge to regional development bank managers, particularly Bank Sulselbar, regional development bank in South Sulawesi and West Sulawesi Province, Indonesia and generally in other developing countries, in implementing the concept of organizational internal factors in relation to corporate entrepreneurship and performance of regional development bank. The last is that directors and managers of regional development bank as leaders in the future should drive the implementation of organizational internal factors such as top management support, supportive organizational structure, resource availability, reward system, and work discretion, and corporate entrepreneurship to improve organizational performance.

## **6. Conclusion, Limitation and Future Research**

This research is experimental research on performance of regional development bank. We analyzed the role of organizational internal factors as an important variable for the successful implementation of corporate entrepreneurship to improve performance of Bank Sulselbar, regional development bank in South Sulawesi and West Sulawesi Province, Indonesia. The regression results indicate that there is positive effect of top management support on corporate entrepreneurship; a positive but not significant effect of supportive organizational structure on corporate entrepreneurship; a negative and not significant effect of resource availability on corporate entrepreneurship; a positive effect of reward system on corporate entrepreneurship; a positive effect of work discretion on corporate entrepreneurship; a positive effect of corporate entrepreneurship on financial performance; and a positive effect of corporate entrepreneurship on non financial performance.

Given the wide scope of the discussion, this study has limitations in presenting the relationship of a cross sectional analysis. The changing of business environment needs to be identified. Therefore, further research with longitudinal design is needed to re-examine whether the relationship between the variables analyzed in the study

had changed. Furthermore, the accuracy for the model is .545. This means that 54.5% of the variance in the variable of the top management support, supportive organizational structure, resource availability, reward system, and work discretion, corporate entrepreneurship, financial performance, and non financial performance can be explained by the model, and the remaining 45.5% is explained by other variables. Therefore, further studies in the future can develop a research model by adding variables such as antecedent variables of organizational external factors.

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