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Intrapreneurial Orientation in SMEs: A South African Perspective

Chris Schachtebeck¹, Darelle Groenewald², Cecile Nieuwenhuizen³

Abstract: The aim of this study is to identify South African constructs of Intrapreneurial Orientation aiding the internal growth of SMEs. The study is qualitative in design and utilizes a triangulation approach by performing a Delphi study with South African entrepreneurship experts as well as semi-structured interviews with SME employees. The results reveal that IO elements promoting growth in SMEs are behavioral, attitudinal, managerial and environmental in nature. These constructs contain traditional Entrepreneurship Orientation (EO) elements as well as multi-dimensional factors centering on the individual in the SME. The findings of this study allow for the development of a South African instrument investigating Intrapreneurial Orientation in SMEs. The constructs further allow established SMEs to improve their propensity to innovate by instilling an entrepreneurial spirit within their employees. To date, no South African study has been conducted into underlying constructs of Intrapreneurial Orientation, a sub-field of Intrapreneurship which has received limited attention in literature.

Keywords: Intrapreneurial orientation; entrepreneurial orientation; small and medium-sized enterprises

JEL Classification: L26

1. Introduction

Large parts of Sub-Saharan Africa have experienced economic boom times recent times, characterised by high levels of economic growth, increased consumer confidence and supportive government policies. Directly tied to these economic improvements are higher levels of entrepreneurial activity amongst a country's population (Herrington, Kew & Mwanga, 2017). Yet the South African economy has not kept pace with the economic resurgence of its African neighbours. In early 2017, South Africa finds itself in a technical recession, recording two quarters of negative Gross Domestic Product (GDP) growth. In the fourth quarter of 2016, South Africa's GDP contracted by 0.3%, followed by a further contraction of 0.7% in the first quarter of 2017 (Statistics South Africa, 2017a). While the country escaped the technical recession in the second quarter of 2017 by recording quarter-on-quarter and year-on-year growth of 2.5% and 1.1%, respectively, much of this growth can be attributed to the agriculture industry recovering from the effects of a drought (Statistics South Africa, 2017c). The effects of negative and sluggish economic growth rates are evident in the climbing unemployment rate, rising from 23.2% in 2008 to 25.2% in 2014, and finally to 27.7% in the second quarter of 2017 (Statistics South Africa, 2017b). The continued upward trajectory in unemployment, coupled with a declining labour participation rate, paint a bleak picture for the health of the South African economy. This dire situation is particularly evident in the low levels of entrepreneurial activity in South Africa. These low levels are mirrored in the slow

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creation of Small and Medium-sized Enterprises (SMEs) (Herrington *et al.*, 2017). Particularly troubling is the fact that SMEs are often considered to be drivers of economic growth and the associated socio-economic upliftment (Weimei & Fenge, 2012), seeing that ‘in many developing economies, small businesses have been shown to contribute substantially to job creation, economic growth and more equal income distribution’ (Herrington *et al.*, 2017:5).

Compounding these economic woes is the high failure rate of SMEs in South Africa, estimated to consistently lie between 70-80% (Adeniran & Johnston, 2011). This high failure rate implies that SMEs are unable to remain competitive in an ever-changing competitive environment or establish a foothold in an increasingly competitive marketplace (Lotz & van der Merwe, 2013). Large businesses and corporations tend to dominate most industries in South Africa. This holds especially true in the utilities, mining, transport and manufacturing sectors, where large businesses contribute industry turnover of 93%, 92% and 83% respectively. It is only in the personal services, business services and construction sectors that Small and Medium-sized Enterprises (SMEs) hold a larger share of industry turnover, with contributions of between 41-57% (Statistics South Africa, 2016).

In order to overcome the obstacles created by the dominance of large businesses and a deteriorating socio-economic landscape in South Africa, SMEs need to enhance internal growth rates and transform into so-called ‘high-growth enterprises’ (Goldberg, Habberton & Ratcliffe, 2015). High-growth SMEs can be defined as those that exceed annual growth rates of 20% in either turnover and/or employment-based measures. Such enterprises, which are older than five years and show the required growth rates, are deemed ‘gazelles’ (Petersen & Ahmad, 2007). Yet in the South African context, SMEs fail to grow at adequate rates for a number of reasons. These reasons notably include, from an internal perspective, access to funding, low rates of innovation, inadequate entrepreneurial skills of the founder, inadequate investment in internal human capital, growth ambitions and market orientation. From an external perspective, generic policy interventions can be added to this list (Ngek, 2014; Mthimkhulu & Aziakpono, 2016). The lack of innovation capability, entrepreneurial skills, market orientation and human capital are fundamental to both high-quality SMEs and entrepreneurship, yet these factors tend to be absent in South African SMEs (Ngek, 2014; Mthimkhulu & Aziakpono, 2016).

Adopting an entrepreneurial orientation (EO) has been confirmed as positively affecting business performance, in particular when promoting SME autonomy and proactive innovativeness (Matchaba-Hove & Goliath, 2016). The EO concept and its underlying constructs have received significant attention in academic literature, with a number of prominent scholars postulating differing constructs, antecedents and motivations for EO (Covin & Wales, 2012). Yet while organisational-level EO has received significant attention in literature, EO at an individual level tends to be neglected (Antoncic & Hisrich, 2003; Foba & De Villiers, 2007). As entrepreneurship is not only practiced by entrepreneurs and SME owners by employees, it is vital to highlight the role that this latter group play in identifying opportunities, driving innovation and matching products and services to market needs, thereby improving the SME’s chances of success (Jain & Ali, 2012). This entrepreneurial mindset, referred to as Intrapreneurial Orientation (IO), and predisposition to prefer innovativeness, risk-taking and proactiveness, is often evinced by individuals in established organisations. The potential of IO is therefore contingent on the individual employee (Lyon, Lumpkin & Dess, 2000; Stewart, 2009). This study investigates IO constructs contributing to SME growth from a South African point of view.

The following sections outline the problem statement, research objectives and prominent literature in the field of EO and IO. Findings, conclusions and managerial implications are presented thereafter.

2. Literature Review

Entrepreneurship research focused on new venture creation and the role of the entrepreneur in this process. While the creation of a new venture is only one step in the life cycle of a small business, its subsequent growth into a large corporation or production-based organisation is often a natural evolution. It is at this point in an organisation's evolution that the role of the internal entrepreneur, or intrapreneur, is often overlooked in academic research (Antoncic & Hisrich, 2003; Foba & De Villiers, 2007). The lack of research into the intrapreneur is especially troubling considering that intrapreneurship holds substantial benefits for organisations of any size, most notably in the form of accelerated organisational growth, profitability and renewal (Zahra, 1991). Kuratko (2017:57) stresses that 'entrepreneurial attitudes and behaviors, it seems clear, are necessary for firms of all sizes to prosper and flourish in competitive environments'. In addition, intrapreneurship manifests itself not only in the attitudes and behaviours of employees, but also in the culture, processes and structure of an organisation, thereby increasing its propensity to act creatively and innovatively, improving the odds of organisational success and growth (Pinchot, 1985; Kuratko & Montagno, 1989).

Foba and De Villiers (2007) argue that the primary characteristics of intrapreneurship include new business venturing, proactiveness, self-renewal and competitive aggressiveness. Antoncic and Hisrich (2003:20) propose an eight-dimension model of intrapreneurship ('new ventures, new businesses, product/service innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness and competitive aggressiveness'), which at organisational level displays convergent and discriminatory validity. Intrapreneurship, in its conceptual form, originates from two research streams, namely, Entrepreneurial Orientation (EO) and Corporate Entrepreneurship (CE) (Antoncic & Hisrich, 2003). The organisational climate acts as a precursor to intrapreneurial actions, allowing organisations to harness the innovative talent of their employees by fostering a culture of innovation, risk-taking and proactiveness (Kuratko, 2017).

Intrapreneurial Orientation originally stems from the EO concept. It is regarded as a strategy-making process which improves entrepreneurial actions and decision-making in organisations (Lumpkin & Dess, 1996). Entrepreneurial Orientation is therefore an organisational-level concept which improves competitive positioning and fosters entrepreneurial actions in organisations (Rauch *et al.*, 2009). Additionally, EO leads to enhanced organisational success and an improvement in performance (Khandwalla, 1977; Covin & Slevin, 1991; Lumpkin & Dess, 1996; Zahra, Jennings & Kuratko, 1999). Originally developed by Miller in 1983, the theory of EO comprises three underlying dimensions. These dimensions include proactiveness, innovativeness and risk-taking. *Proactiveness* can be regarded as the ability to adapt to changes in the environment by pursuing competitive advantage (Urban, 2012). *Innovativeness* refers to creative thought, operationalised by the organisation and employees experimenting with novel concepts and seeking new ideas (Miller, 1983; Covin & Miles, 1999). *Risk-taking* can be seen as a by-product of the entrepreneurial effort to innovate, the tolerance of uncertainty and possibility of potential losses are inherent in the pursuit of the unknown (Miller, 1983; Morris &

Kuratko, 2002; Blundell & Lockett, 2011). Two additional factors, autonomy and competitive aggressiveness, were suggested as supplementary dimensions to the EO concept (Lumpkin & Dess, 1996; 2005). *Autonomy* can be seen as independent action brought forth by entrepreneurial leaders or teams, with the goal of new venture creation or innovation (Rauch *et al.*, 2009). *Competitive aggressiveness* refers to an organisation displaying 'a strong offensive posture or aggressive responses to competitive threats' (Rauch *et al.*, 2009:764). While the original three dimensions of EO proposed by Miller (1983) are the most frequently used constructs, other authors suggest that although there is merit in the five-dimension model, the EO components tend to vary and co-vary as a grouping depending on context (Covin & Slevin, 1989; Jain & Ali, 2012).

While EO is conceptualised at an organisational level, Stewart (2009) finds that the three original elements of EO can be applied at the individual level as well, thereby giving rise to IO. Intrapreneurial Orientation is particularly important for organisations as it plays a role in the growth and revival of organisations. This, however, requires changes in the long-established *modus operandi* of an organisation in terms of its power distribution, systems and internal structures (Sinha & Srivastava, 2016). Jacobs (1998) argues that adopting an Intrapreneurial Orientation should be a strategic choice, in the same manner in which adopting an EO is a strategic choice (Khandwalla, 1987).

Robinson, Stimpson, Huefner and Hunt (1991) investigated Entrepreneurial Attitude Orientation (EAO) at an individual level in organisations and found four prominent dimensions, namely, achievement in business, innovation in business, perceived personal control and perceived self-esteem. Shetty (2004) operationalised these four dimensions with reference to intrapreneurship from an attitudinal perspective. *Achievement in business* refers to the organisational growth perspective. *Innovation in business* pertains to the individual's propensity to act in a creative manner. *Perceived personal control* refers to the individual employee's perception of the degree of sway over their work. *Perceived self-esteem* pertains to the individual's perceived level of self-assurance and self-confidence in their ability to perform their work (Shetty, 2004). The EAO scale, as proposed by Robinson *et al.* (1991), is a measure of the entrepreneurial attitude of individual employees and can be considered as an expansion of IO (Krishnan & Kamalanabhan, 2015). While these four dimensions can therefore act as indicators of EAO, numerous other factors can also determine whether an individual employee will act in an entrepreneurial manner, including personality traits, attitudinal characteristics, intra-organisational social interaction, abilities and competencies (Jain & Ali, 2012).

Foba and De Villiers (2007) state that five secondary characteristics can be found in most intrapreneurs. These include strategy, innovativeness, autonomy, risk-taking and team-building. From an attitudinal perspective at the individual level, six attitudes are considered to have a positive impact on organisational performance and growth, namely, 'achievement orientation, risk-taking propensity, internal locus of control, innovativeness, pro-activeness and market orientation' (Jain, Ali & Kamble, 2015:1). Other studies investigating underlying IO constructs have suggested constructs similar to those found in EO, with risk-taking, innovativeness and proactiveness featuring in IO instruments (Jacobs & Kruger, 2001; Urban & Oosthuizen, 2009; Farrukh, Chong, Mansori & Ramzani, 2017). Other IO instruments rely on the constructs proposed by Robinson *et al.* (1991) (Shetty, 2004; van Wyk & Boschhoff, 2004), while yet others point to elements such as self-esteem, achievement orientation, perceived personal control and innovation orientation (Sinha & Srivastaa, 2016). Goosen and de Coning

(2002) describe IO in terms of internal managerial factors (goals, rewards and innovation systems, intracapital, communication, intrapreneurship championing, staff input and intrapreneurial freedom), innovativeness and proactiveness. It therefore becomes apparent that little commonality has been established in literature as to which constructs underlie IO, with different authors proposing both behavioural, attitudinal and managerial factors. This study therefore aims to uncover, holistically, the constructs underlying IO, from a South African expert and SME point of view.

3. Problem Statement

While the importance of SMEs in South Africa's socio-economic landscape has been widely acknowledged, particularly with regards to poverty alleviation and job creation, the statistics behind SME survival and growth have been a source of concern. Entrepreneurially-orientated organisations have the propensity to grow at a faster rate than non-entrepreneurial organisations and have higher survival rates. The onus of SMEs acting in an entrepreneurial manner does not merely rest with the lead entrepreneur or SME owner; employees also drive the internal innovation engine, both behaviourally and attitudinally.

While at organisational level, EO as a body of knowledge has been growing rapidly since the 1990s, few studies query the drivers and constructs of EO in employees, in particular within SMEs. The IO phenomenon has received little attention, particularly in South African literature, a fact that is of particular concern when considering the socio-economic issues the country faces. The dearth of literature on South African IO constructs precludes SMEs from improving their intrapreneurial capabilities and associated potential for growth. Insight into these IO constructs can hold significant benefits for SMEs, particularly with regards to innovation capabilities and an improved internal growth rate. It is therefore concerning that no South African IO constructs affecting SME growth currently exist

4. Objectives

The primary objective of this study is to develop South African-focused constructs of Intrapreneurial Orientation aiding growth in Small and Medium-sized Enterprises.

In order to adequately address the primary objective, a number of secondary objectives are set as follows:

- To determine the nature of EO and IO
- To describe existing prominent EO and IO constructs
- To explore the concept of IO in the South African context.

5. Research Methodology

This study adopts an exploratory research strategy and uses methodological triangulation. Methodological triangulation is the use of multiple research methods in a single study, whether at design

or data collection level (Ziyani, King & Ehlers, 2004). The concept of triangulation can be defined as the collection of data from multiple sources with the same research focus (Burns & Grove, 2001). Triangulation allows for the use of multiple methods, converging differing viewpoints in order to increase the reliability of findings, confirm findings, represent reality and holistically view a social phenomenon (Duffy, 1993; Inui *et al.*, 2009). Empirical research was therefore conducted using methodological triangulation, taking the form of expert-focused, semi-structured interviews and the Delphi technique.

The Delphi study was conducted with academic experts in the field of Entrepreneurship and Corporate Entrepreneurship. The Delphi technique is commonly used to gather data from individuals within their area of expertise by means of group communication with the aim of achieving consensus on a particular issue. While a minimum of two iterations or rounds should be enough to reach consensus (Thangaratinam & Redman, 2005), three iterations are often regarded as sufficient to reach consensus and collect the required information (Custer, Scarcella & Stewart, 1999). Literature does not, however, specify an optimal number of participants, although some researchers suggest between 10-15 participants of homogenous background (Delbecq, Van de Ven & Gustafson, 1975). Linstone (1978) indicates the minimum should be seven participants. In practice, however, panel sizes have ranged from 4 to 3000 participants, depending on the quality of the expert panel (Thangaratinam & Redman, 2005). Invitations to thirteen subject matter experts were sent, with nine experts participating, culminating in a response rate of 69%. Data obtained from the Delphi study was analysed by means of thematic content analysis. Data from the Delphi study was collected, in two iterations, online through Google Forms. Each participant was sent an online link to complete.

The second data collection approach was conducted through semi-structured, face-to-face interviews with employees of SMEs of varying sizes in the Gauteng area. Interviews were only conducted with SME employees, and not SME owners, due to the study focusing on the IO of employees. Purposive sampling was used for the sake of convenience. This approach also ensured that high-growth SMEs could be selected; these SMEs had made concerted efforts to act in an entrepreneurial manner, rather than practicing necessity-based entrepreneurship. A total of fifteen interviews was conducted, as the saturation point was reached after twelve interviews. Fifteen to thirty interviews are regarded as adequate for in-depth interviews of this nature (Boddy, 2016). Indeed, saturation for in-depth interviews can be reached in as little as six interviews, depending on the depth of the questions posed (Fusch & Ness, 2015). Signs of data saturation include no new data, themes or codes emerging (Guest *et al.*, 2006). The empirical data obtained from the interviews was analysed by means of thematic content analysis in order to identify common themes related to IO constructs.

6. Findings

As triangulation was used, the findings of the study are first discussed individually for each data collection method, after which the commonalities in findings of both approaches are combined.

6.1. Interview Findings

A total of fifteen interviews was conducted with employees of high-growth SMEs. In terms of demographics, eight of the interviewees were female, while seven were male. Two of the participants were between the age group of 18-30 years, nine were between the ages of 31-40 years, while four were older than 51 years. All respondents were South African citizens, with most participants (8) being coloured (mixed race) in ethnicity. Three participants were of African origin, while the remaining participants were of white (2) and Indian/Asian descent (2). The majority of interviewees (9) were holders of a matric certificate, three had an undergraduate degree and the remaining three possessed a postgraduate degree. In terms of length of service, six participants were employed for a period of 6-10 years, six for a period of 1-5 years, two for a period of 10 years or more, and one for less than a year. Most interviewees were general employees (8), with five employees being middle managers and two being lower-level managers. The SMEs in which the participants were employed mainly operated in the finance and business services industry (5), followed by the transport, storage and communications industries (4), mining and quarrying (3), retail motor trade (1), wholesale trade (1) and manufacturing (1).

The interviewees mainly understood internal SME growth to be growth in revenue/sales and growth in profit. Three interviewees also highlighted growth in employee numbers as an important growth measure. Due to the purposive sampling approach, most participants (9) reported growth in their enterprises as exceeding 20%.

Organisational factors vital to improving growth rates were suggested as 1) empowerment of employees in terms of decision-making, 2) increased tolerance of risk, 3) open communication channels between management, employees and external partners, as well as 4) targeted product strategies. Other studies have confirmed the positive relationship between targeted product strategies, increased risk-taking in the form of innovation and internal SME growth (Atalay *et al.*, 2013; Haghighinasab *et al.*, 2013; Ndesaulwa & Kikula, 2016). In terms of **improving organisational-level entrepreneurial levels**, the same factors emerged, with 'provision of training opportunities for staff' being indicated as an additional factor. This finding correlates with other studies which recognise the substantial benefits employee training holds for organisational growth (OECD, 2013). On an **individual-level**, respondents indicated that **employee attitudes** such as positivity, perseverance, proactiveness and innovativeness assist internal growth. Individual **behaviours** such as maintaining good customer contact/orientation, self-motivation/drive, persistence and team orientation were indicated as having a positive impact on organisational growth. In terms of the **role management plays in assisting employees to help the organisation grow**, respondents indicated the provision of training opportunities and upskilling, empowerment, communication and provision of resources as the most important factors. The same factors emerged for **management's role in assisting employees to become more entrepreneurial**. Previous research confirms that upskilling and the provision of training opportunities correlate positively with SME growth (OECD, 2013).

6.2. Delphi Findings

A total of nine subject matter experts participated in the Delphi study. The Delphi study ran over two rounds, after which consensus was reached. All responses were specifically geared towards SME employees and environments. Participants were first required to reach consensus on dimensions underpinning the EO concept. Participants agreed that the five commonly utilised EO factors, as proposed by Miller (1983) and Lumpkin and Dess (1996), were the primary factors underpinning EO. These factors included innovativeness, risk-taking, proactiveness, competitive aggressiveness and autonomy. Additional factors fostering an organisation-wide EO, specifically with reference to SMEs, included the provision of access to finance, fostering a collaborative and supportive culture, instilling the motivation to succeed, encouraging critical thinking and crafting a focused vision. It should, however, be noted that organisational risk-taking involves the provision of resources (including financial), while critical thinking is crucial to innovation.

In terms of **attitudes** allowing SME employees to act more entrepreneurially, participants agreed that the most important traits include risk-appetite, willingness to adapt, passion, perseverance, self-confidence and a personal performance-orientation. Desirable and tangible IO **actions** employees should display included acting in a creative manner, innovating, taking initiative, seeking opportunities, persuasiveness, risk-taking, curiosity and accountability. In terms of **managerial actions** positively influencing IO actions, important components included openness to new ideas, an innovation and creative reward system, employee empowerment, support for risk-taking, crafting a vision and promoting collaborative work. **Internal environmental** elements influencing IO included communication, support for new ideas, collaborative culture, creative culture, encouragement for risk-taking, a future orientation and an appreciative environment. Findings for the internal environment are largely in line with other studies which confirm a positive relationship between risk-taking, innovation culture (including support for new ideas) and preparedness for change (future orientation) (Covin & Covin, 1990; Aldrich & Wiedenmayer, 1993; Zhou & de Wit, 2009)

6.3. Triangulation

By combining the results of the interviews and the Delphi study, common constructs or themes emerge. These common constructs allow for the development of a conceptual framework of factors which contribute to building EO. This framework can also be used to indicate which factors are vital for the implementation of IO in South African SMEs. The framework for EO is presented below in Figure 1.

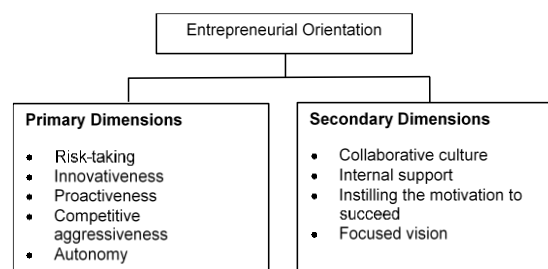


Figure 1. Dimensions of EO

Source: Research findings

In terms of IO factors, common themes emerged, categorising influencing elements as managerial, environmental, attitudinal and behavioural. The developed framework is depicted in Figure 2 below.

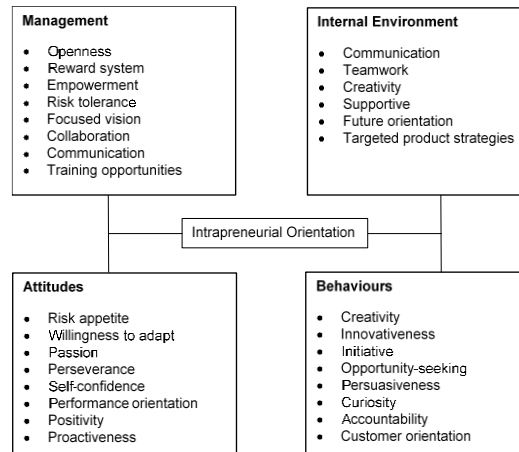


Figure 2. IO Elements

Source: Research findings

Elements which overlapped between different categories were removed and reflected in one category. Strong commonality in responses allowed for the development of the framework in terms of the four overriding dimensions. The findings show that IO is a multi-dimensional concept with a multitude of influencing elements, which can be attributed to the human element involved.

7. Conclusion

Small and Medium-sized Enterprises hold a special place in the South African environment. This can be attributed to the important socio-economic and related benefits that SMEs holds for countries such as South Africa. Such benefits include boosted economic growth rates by means of greater competitiveness driven by innovation, provision of job opportunities and raised levels of productivity (Kritikos, 2014). However, as evinced by the high SME failure rate and the findings of the Global Entrepreneurship Monitor, the low levels of innovation and entrepreneurship within existing SMEs are an area of concern. This study therefore aimed to develop South African IO constructs that promote internal SME growth. The results showed that factors can be grouped as being managerial, attitudinal, behavioural or environmental in nature. Within those factors, the traditional five EO dimensions as proposed by Lumpkin and Dess (1996) can be discovered. The nature of intrapreneurship is reflected in the identified IO elements and is congruent with the intrapreneurial propositions of Pinchot (1985) and Kuratko and Montagno (1989). The identified combination of IO elements mirrors the combination of findings of various other studies, such as those by Robinson *et al.* (1991), Goosen and de Coning (2002), Shetty (2004), van Wyk and Boschhoff (2004) and Sinha and Srivastaa (2016). The broad conceptual base identified in this study can be attributed to the triangulation approach, which allowed for a 360-degree perspective of IO, both from an academic and an industry point of view. The value of the research

is two-fold, lying in its South African perspective of IO, as well as its focus on IO in SMEs and the associated growth impact.

8. Managerial implications and recommendations for future research

This study aimed to identify those underlying constructs and antecedents of IO which contribute to growth in South African SMEs. The findings of the study provide SMEs with easy-to-use indicators of which behaviours and actions are desired when seeking to improve growth rates. The findings further provide academics and researchers with constructs from which future data collection instruments can be crafted, particularly in the largely unexplored field of employee-level Intrapreneurial Orientation. The findings further promote the IO concept in SMEs, specifically in the South African context. Future research can include SMEs from different South African provinces and in other emerging markets where SMEs hold a prominent place. Potential future instruments, based on the identified constructs, could also be used in various contexts in South African SMEs to determine prevailing levels of IO. Post-study interventions, based on research findings, could be used in longitudinal studies to determine the impact of enhanced IO on SME growth.

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