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Building an inclusive entrepreneurial culture

Effects of employee involvement on venture performance and innovation

Tim Blumentritt, Jill Kickul and Lisa K. Gundry

Abstract: *The process through which entrepreneurial firms plan and achieve strategic growth and innovation often reflects a complex set of internal organizational challenges and opportunities. This paper specifically focuses on how entrepreneurs build internal cultures in order to stimulate and drive innovation and improve organizational effectiveness. Drawing upon both strategic-management and entrepreneurial-dynamics perspectives, the authors argue that sustained innovation requires moving beyond the characteristics of the entrepreneur towards an organization that will support a firm's growth by eliciting and directing additive contributions from the individuals working for these ventures. Results revealed that entrepreneurs were more likely to create high-performance and innovative ventures if they were able systematically to involve employees in the idea and opportunity-development stages of the firm. Implications for the strategic management of innovation in emerging entrepreneurial firms are further discussed.*

Keywords: *innovation; entrepreneurial culture; strategic management*

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Most entrepreneurial ventures start as very small firms with a single purpose: capturing and exploiting the vision of the entrepreneur. A primary challenge for these firms as time passes is moving beyond the start-up phase to become more mature operations, even if they remain small businesses. Doing so often requires standardizing and institutionalizing organizational practices, structuring the contributions of employees, and expanding on

the original entrepreneurial proposition that served as the impetus for the firm's creation.

This is a difficult step for many entrepreneurial ventures to take. Some authors have noted the impact of entrepreneurial personality characteristics and practices on the performance of start-ups, as well as significant differences between entrepreneurs and managers in general (Stewart and Roth, 2001). However, it may be

posited that those ventures best able to make the leap from acting on a vision to constructing an organization will be the most successful at creating sustained and fast-growing firms.

Scholars of strategic management have noted that properly developed organizational structures are a key element in highly successful firms. However, little work has examined the impact of structural components in the context of entrepreneurial ventures. Given the significant differences between large, established firms and entrepreneurial ventures, it is important to discover if elements of structure also act as facilitators of performance in smaller, younger organizations. This paper examines the impact of employee involvement, or the extent to which members of entrepreneurial firms actively contribute inputs and ideas, on the ability of entrepreneurs to drive innovation and improve performance and overall organizational effectiveness.

The following literature review draws on work from both entrepreneurship and strategic management. This literature leads to the development of several hypotheses that focus on employee involvement and its influence on entrepreneurial-venture innovation and performance. The hypotheses are tested on a data set from over 100 entrepreneurs to determine whether employee involvement moderates the relationships between entrepreneurs and the innovation and performance achieved by their organizations. The findings are then discussed, and conclusions are presented.

Literature review and theoretical foundation

Scholars have associated strong entrepreneurial personalities with greater levels of success at their ventures (eg Kisfalvi, 2002; Miller and Toulouse, 1986; Nicholson, 1998; Zahra and Garvis, 2000). However, personality traits will only take the entrepreneurial venture so far; it is likely that entrepreneurs who continue to rely solely on their own contributions for venture performance will limit their firms' growth opportunities.

We argue that sustained organizational development requires moving beyond the characteristics of the entrepreneur towards an organization that will support the firm's growth by eliciting and directing additive contributions from the individuals who work at the ventures. That is, while strong entrepreneurial personalities are a prerequisite for initial venture survival and success, entrepreneurs who generate contributions from the people working in the organization are more likely to exploit their entrepreneurial characteristics in the pursuit of positive organizational outcomes.

Ideas from strategic management are helpful in

examining these dynamics. Strategic management, at its core, examines an organization's ability to create positive outcomes from its activities. One long-standing perspective in strategic management is contingency theory (Amburgey and Dacin, 1994; Drazin and Van de Ven, 1985; Hrebiniak and Joyce, 1985), despite its limitations (Schoonhoven, 1981). One part of contingency theory focuses on the use of organizational structure as a facilitator of organizational performance. Govindarajan (1988, p 829) wrote that 'matching strategy with organizational structure, control systems, and managers' characteristics is expected to be associated with superior performance'. In this respect, contingency theory suggests that the larger an organization grows, the more likely it is to require a good structure, and that a tight fit between an organization's structure and its strategies is likely to drive positive organizational performance. In entrepreneurial settings, this perspective suggests that while an entrepreneurial venture may be able to survive, and even thrive to a point, with little or no structure while it is still emerging, the creation of a proper organizational structure will allow the firm to expand its reach and level of activity, and thus to grow.

However, little work in the small business literature has examined the advent of structural characteristics as they emerge from entrepreneurial ventures, although there have been calls for greater research in this area (Chrisman, Bauerschmidt and Hofer, 1998; Dess, Lumpkin and McGee, 1999). There are notable exceptions (eg Gundry and Welsch, 2001). Vinnell and Hamilton (1999) found that structural concerns impacted on the growth of a company that they studied in detail over a period of many years. They note that during a period of no growth following a period of rapid expansion, 'the company operated with essentially the same simple owner-managed structure from 1951 through 1964. . . The pressures of managing past growth meant that there was just no scope to plan or manage further growth' (Vinnell and Hamilton, 1999, p 11). Despite this logical argument, there continues to be debate on the value of structural attributes in small firms (Swiercz and Lydon, 2002). For instance, O'Gorman and Doran (1999) did not find a relationship between the creation of formalized mission statements and venture performance, even though other studies had established such a relationship in larger firms.

Hypotheses

We examine the impact of one element of organizational structure on the relationship between characteristics of the entrepreneur and venture outcomes, that of employee involvement. Cotton (1993, p 3) defines

employee involvement systems as 'a participative process to use the entire capacity of workers, designed to encourage employee commitment to organizational success'. Greater levels of employee involvement signal that the entrepreneur or small business leader is willing to create an environment that promotes contributions from employees. Employee involvement is an element of organizational structure because it requires a systematic effort to acquire and act upon the ideas of a venture's employees. The alternative to employee involvement is to consider employees as implementers, as individuals in place simply to do as they are instructed by their leaders. In some respects, creating a programme for employee involvement requires adding the capacity for information to flow upwards through the organization, as opposed to only down from an organization's leaders to its workers.

The following hypotheses consider employee involvement from a contingency-theory perspective, which suggests that structural attributes such as employee involvement augment the relationship between strategically valuable resources (such as strong entrepreneurs) and organizational performance. Based on previous work, we begin our examination with the fundamental hypothesis that persons with strong entrepreneurial characteristics are more likely to have successful and innovative ventures than are entrepreneurs who do not have these characteristics (Covin and Miles, 1999; Russell, 1999; Sadler-Smith, Hampson, Chaston and Badger, 2003; Stewart, Watson, Carland and Carland, 1998; Thornberry, 2001). While these relationships are well examined in the entrepreneurship literature, they are important to later examinations of the role of employee involvement.

H1a: Ventures led by individuals with strong entrepreneurial personalities are more successful than ventures that are not.

H1b: Ventures led by individuals with strong entrepreneurial personalities are more innovative than ventures that are not.

A strong entrepreneurial personality, however, will only take the firm so far. At some stage of growth, the firm may become too big for a single individual to direct effectively (Vinnell and Hamilton, 1999). At that stage, the entrepreneur must be able to redirect his or her efforts from solely acting upon the vision that established the firm to creating an enduring organization by fully utilizing the talents and effort of the other people working at the firm as well. That is, an entrepreneurial venture that is able to support the entrepreneur's competencies with appropriate employee-involvement

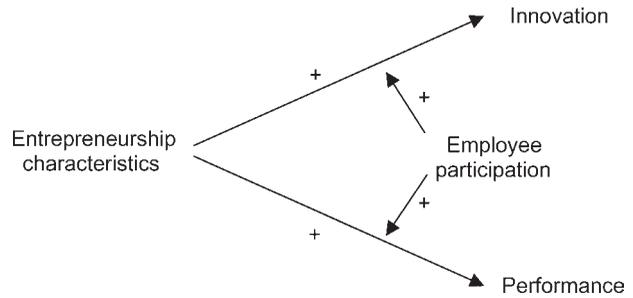


Figure 1. Proposed model of study.

practices should be more successful in growing beyond the limits of the entrepreneur's time and talents than are those firms that continue to rely on the entrepreneur alone.

This point is supported by contingency theory. Again, contingency theory, as it relates to organizational structure, notes that a firm's structure must fit with its strategy and strategic objectives. As such, contingency theory proposes that factors such as employee involvement, an element of organizational structure, moderate the relationship between entrepreneurial personalities and organizational performance. Entrepreneurs who are able to generate and utilize valuable input from the people in their businesses are likely to extract more value from their entrepreneurial characteristics than those who are not. These relationships are represented graphically in Figure 1.

For example, Kimberly (1981) argued that open interactions among team members enhanced the creative and innovative abilities of an organization. Management's ability to nurture a team environment that encourages openness and respect for diverse perspectives is not only important for generating creative ideas and opportunities, it also has an impact on other critical business outcomes such as organizational performance (Kickul and Gundry, 2001). Several studies have linked employee involvement with increased levels of organizational performance (Appleyard and Brown, 2001; Batt, 2002; Huselid, 1995), although these studies were conducted on larger, more established firms.

These arguments lead us to hypothesize that employee-involvement practices will impact on the relationships between entrepreneurial characteristics and venture performance. In particular, employee involvement should strengthen the association between entrepreneurial characteristics and venture performance, allowing ventures to extract additional value from the entrepreneurs' characteristics.

H2: Employee involvement moderates the relationship between entrepreneurial personalities and

venture performance. Specifically, greater contributions of innovative input and ideas by organizational members will enhance the relationship between entrepreneurial personalities and venture performance.

Employee involvement will also impact a venture's ability to generate innovation. Of course, not all entrepreneurial ventures are innovative, as some firms choose to concentrate only on exploiting the idea that led to the venture's creation. However, ventures that emphasize innovative activities are more likely to benefit from the creativity and energy that employee involvement promotes. That is, deviations from the original entrepreneurial vision are likely to require an emphasis on including all of an organization's personnel in the venture's drive to innovate.

H3: Employee involvement moderates the relationship between entrepreneurial personalities and venture innovation. Specifically, greater contributions of innovative input and ideas by organizational members will enhance the relationship between entrepreneurial personalities and venture innovation.

This study considers three control variables as they may impact on the occurrence of employee involvement. Firm size may influence organizational participation: larger firms may have more resources available than small ones to create and manage organizational efforts that generate employee involvement.

Additionally, the strategic-management literature, through contingency theory, argues that environmental variables drive the necessity for building organizational structure (including those elements that encourage employee involvement). Environmental factors are important to this study, as others have found that such factors impact on entrepreneurial activities (Zahra and Garvis, 2000). Dess and Beard (1984) identified three primary dimensions of the external market: environmental munificence, environmental dynamism and environmental complexity. Environmental complexity is defined as 'the heterogeneity of and range of an organization's activities' that 'increases with [the] number of organizational inputs and outputs' (Dess and Beard, 1984, pp 56–57). Given that the subject of this paper is entrepreneurial ventures with limited ranges of activities, this construct is not considered further here.

Castrogiovanni (1991, p 542), like Dess and Beard, defines environmental munificence as 'the scarcity or abundance of critical resources needed by one or more firms operating within an environment'. As applied to the competitive market, munificence describes how

amenable the environment is to firm success. In particular, competitive environments are more munificent when there is a lack of strong competition. In such environments, firms are more likely to be able to get away with lax or inefficient structures, simply because the market will not penalize it for its shortcomings. In more competitive (less munificent) markets, however, a developing entrepreneurial venture is more likely to be successful if its structure is well formed and able to facilitate the implementation of the entrepreneur's vision.

Dess and Beard (1984, p 56) define environmental dynamism as 'the unpredictability of environmental change, or change that is hard to predict'. Dynamism drives structure by requiring directed and rapid responses to continually changing external factors, such as developments in technologies, business processes or customer requirements. Thus, we control for environmental munificence and dynamism in the paper's statistics.

Methodology

Sample

Targeted participants included entrepreneurs located in the Midwest section of the USA. The sample was obtained through contact information collected by a local chamber of commerce that gives technical and managerial assistance to entrepreneurs and their respective ventures. We received responses from 107 targets. Approximately 40% of the business owners (78% male) were between the ages of 40 and 49. Over 60% of the entrepreneurs held a college degree. The businesses surveyed came from a variety of industries, including sales (15%), insurance (14%), real estate (13%) and communications (10%). Over 66% of the businesses had annual revenues of between \$300,000 and \$1 million and 77% had fewer than 50 employees. The response rate was approximately 31% (300 surveys were distributed to the entrepreneurs).

Survey procedure

All entrepreneurs were told that we were conducting research to understand better some of the factors associated with starting and growing their businesses. In addition to answering a series of demographic questions on personal (eg educational level, education, gender) and business (eg employment, sales revenue, etc) characteristics, the business owners were asked to provide information regarding their personality, their business structure, perceptions of their industry's environment, and the types of innovations implemented in their organization.

Measures

Firm performance. To measure performance, small business owners were asked about the extent to which their 'firm's profitability has increased since start-up' and the extent to which their 'firm has continued to grow in sales'. They rated these statements using a 5-point Likert scale (1 = not at all; 5 = to a very great extent).

Innovation. We measured innovation (four items) by asking the small business owners how often they had engaged in the following activities: (a) creating a new product or service; (b) marketing a new product or service; (c) new investments and financial issues; and (d) new sales plans or techniques. Respondents rated these activities on a 5-point Likert scale (1 = never; 3 = sometimes; 5 = always).

Entrepreneurial characteristics. Characteristics of the small business owners were assessed through self-reported ratings on the following four traits: self-confident, resourceful, creative and a strong leader. Ratings were based on a 4-point Likert scale (1 = not at all like me; 4 = very much like me).

Employee involvement. Employee involvement was measured using three statements: 'employees are encouraged to give their ideas on decisions'; 'employees are given incentives (financial and non-financial) to increase their motivation to perform'; and 'there is a focus on teamwork here to solve problems'. Small business owners were asked to rate these statements using a 5-point Likert scale (1 = not at all; 5 = to a very great extent). These three statements were adapted from previous work within the content domain of employee creative and innovative behaviour (Scott and Bruce, 1994; Oldham and Cummings, 1996; Zhou and George, 2001).

Size. Organizational size was measured by a categorical measure of the number of the firm's employees. Responses were grouped as follows: less than 10, 11–24, 25–50, 51–99, 100–199, 200–299, 300–399, and over 400.

Munificence and turbulence. Munificence was measured by asking the small business owners to describe the state of competition in their industry (1 = not at all intense; 2 = slightly intense; 3 = moderately intense; 4 = very intense). We measured turbulence by asking small business owners their perceptions of the environment based on two statements: 'The technology you use is constantly changing' and 'The firm's products/services rapidly become obsolete'. Respondents were asked to rate these statements using a 5-point Likert scale (1 =

not at all; 5 = to a very great extent). Dess and Beard (1984) provided the foundation for these measures.

Analysis and results

Descriptive statistics

The means, standard deviations, zero-order correlations and internal-consistency reliabilities for our measures are reported in Table 1.

Hierarchical regression analyses

The hypothesized main effects and interactive effects of entrepreneurial characteristics and participation on innovation were explored through hierarchical regression analysis. The main effects and second-order interaction term were entered as the predictors in two steps. For example, for one of the dependent variables (ie innovation), the first step was to enter simultaneously the main effects of entrepreneurial characteristics and participation (along with the control variables). In the second step, the interaction effects of entrepreneurial characteristics by employee involvement were added. A significant change in R^2 from step 1 to step 2 indicates that there is an interaction (Cohen and Cohen, 1983) between entrepreneurial characteristics and employee involvement on innovation. The same process was used to analyse the interactive effects of characteristics and employee involvement on performance.

Table 2 depicts the results of the interactive effects of entrepreneurial characteristics and employee involvement on innovation as well as performance. The table displays the unstandardized regression coefficient (B), the standard error associated with B (SE B) and the standardized regression coefficient (β).

As displayed in Table 2, the relationship between entrepreneurial characteristics and innovation was moderated by employee involvement ($F(1,100) = 4.65$, $\Delta R^2 = 0.07$, $p < 0.01$). Moreover, we found that the relationship between entrepreneurial characteristics and performance was also moderated by employee involvement ($F(1,100) = 7.19$, $\Delta R^2 = 0.06$, $p < 0.01$). The results of our statistical analyses suggest that employee involvement has a significant impact on the relationship between entrepreneurial characteristics and two measures of venture outcomes; all four of the paper's hypotheses were supported.

Discussion and conclusions

The results of this study indicate that entrepreneurs are more likely to create high-performance and innovative ventures if they are able to utilize employee involvement in their firms. While entrepreneurial characteristics are a

Table 1. Descriptive statistics, correlations and reliabilities.

Variables	Mean	SD	1	2	3	4	5	6	7
1. Munificence	3.33	0.81	(-)						
2. Size	1.94	1.56	0.20*	(-)					
3. Turbulence	2.53	1.11	0.12	0.01	(0.70)				
4. Entrepreneurial characteristics	3.29	0.69	0.26**	0.07	0.07	(0.83)			
5. Employee involvement	3.50	1.05	0.19*	0.17	0.19*	0.40**	(0.67)		
6. Firm performance	3.60	1.18	0.06	0.14	0.05	0.28**	0.35**	(0.77)	
7. Innovation	3.12	0.87	0.13	0.19*	0.28**	0.40**	0.28**	0.20*	(0.70)

Note: N = 107. Internal-consistency reliabilities are in parentheses and provided along the diagonal.

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 2. Hierarchical regression analyses.

Dependent variable: Performance							
	Unstandardized coefficients		Standardized coefficients	t	Sig	R ²	ΔR ²
Step 1:	B	Std error	Beta (β)				
Munificence	-0.08	0.138	-0.058	-0.610	0.543		
Size	0.04	0.070	0.058	0.621	0.536		
Turbulence	-0.28	0.134	-0.267	-2.127	0.036		
Entrepreneurial characteristics	-0.41	0.298	-0.243	-1.402	0.164		
Employee involvement	-0.21	0.207	-0.186	-1.017	0.312	0.16	
Step 2: Interaction of entrepreneurial characteristics x employee involvement	0.25	0.084	0.866	2.982	0.004	0.23	0.07*
Dependent variable: Innovation							
	Unstandardized coefficients		Standardized coefficients	t	Sig	R ²	ΔR ²
Step 1:	B	Std error	Beta (β)				
Munificence	-0.04	0.097	-0.043	-0.479	0.633		
Size	0.07	0.049	0.129	1.464	0.146		
Turbulence	0.01	0.094	0.022	0.189	0.850		
Entrepreneurial characteristics	-0.03	0.210	-0.027	-0.167	0.868		
Employee involvement	-0.27	0.145	-0.325	-1.889	0.062	0.25	
Step 2: Interaction of entrepreneurial characteristics x employee involvement	0.16	0.059	0.764	2.775	0.007	0.31	0.06*

*p<0.01.

precondition for generating success in such ventures, the impact on favourable business outcomes is augmented by practices that encourage employee involvement.

There are at least two significant implications of these findings. First, our study contributes to the understanding of how entrepreneurial ventures develop into larger, more established entities. While nascent ventures may be able to survive and grow to a degree based on the personality characteristics of the entrepreneur alone, the reliance on a single individual is likely to limit the growth of that firm. Our study suggests that entrepreneurs able to bring in the ideas and contributions of the

people working in their firms are more likely to generate positive outcomes.

This finding has an important implication for entrepreneurs. Our study validates the position that entrepreneurs and managers are often people with different personalities and different skill sets. It suggests that entrepreneurs are likely to be more successful in building larger, sustained organizations if they are able to integrate into their operations techniques often attributed to managers to elicit and exploit the ideas of their employees.

Second, our findings lead to a greater integration of

the literatures on strategic management and entrepreneurship. This study relied on contingency theory, a mainstay of strategic-management literature for decades, as a foundation for its hypotheses. The utilization of strategic-management theoretical perspectives in the examination of entrepreneurial dynamics promotes the integration of these two fields. Others have noted the importance of forging links between these two fields (Chrisman, Bauerschmidt and Hofer, 1998; Dess, Lumpkin and McGee, 1999).

While the study's findings are developmental on their own, they also lead to many interesting but unexplored research questions. Most importantly, the entrepreneurship literature does not yet adequately address and measure the impact of employee contributions to the success of entrepreneurial ventures. This article provides evidence that such factors are indeed important in the development of such ventures. Future work should concentrate on further understanding the role that employees and organizational structures play in allowing entrepreneurs to realize their visions.

For instance, while this study examined employee involvement as a moderating variable, there are many other organizational and process characteristics that could impact on the relationship between strategic variables and different measures of outcomes. For instance, it would be interesting to examine the impact of job-role specification on the performance of entrepreneurial ventures. Such a research effort would ask the question: do precise job descriptions have an impact on the ability of entrepreneurial ventures to increase performance (through greater efficiencies) or is the cost of greater labour inflexibility too much to overcome, or perhaps detrimental to the creative and innovative process?

Future research efforts should be directed at exploring additional independent and moderating variables for their impact on the performance of entrepreneurial ventures. Efforts could examine the behaviour of other strategic and structural variables as they interact in entrepreneurial settings. For instance, do the moderating effects of structural attributes change in firms pursuing different strategic postures? Such a question could be explored by gathering data from small firms using various strategies in the Miles and Snow (1978) classification. Or do structural attributes behave differently among various levels and types of strategic resources? Strategic resources may be financial, technological, social (network placement) or physical.

Moreover, there could be an expansion in the outcome variables that are considered in such a framework. This study considered measures of performance and innovation. Future studies could both improve upon our measures of these two variables and consider others,

such as longevity, market scope expansion or geographic expansion.

Our study has several limitations. First, the relationship between the antecedent (entrepreneurial characteristics), employee participation, and innovation and performance included common method variance. The measures used to tap each of these constructs were taken from one source (the entrepreneur of the business). These associations could, therefore, be attributed to a response bias on the part of the entrepreneur. Additionally, the study was cross-sectional and captured entrepreneurs' responses at various stages of their firms' life-cycles. In future studies, it may be possible to control the life-cycle stage at which respondents' firms are found, and investigate the relationship to innovation and performance. Finally, our measure of employee involvement was taken from the perspective of the entrepreneur, not the employees themselves. Employees may not necessarily share the same perspective of the founding entrepreneur on the degree of employee involvement at different positions and responsibilities within the organization.

Despite its limitations, the results of this study have significant implications for entrepreneurs. It is likely that most entrepreneurs are aware of the limitations created by not promoting full participation among employees in their firms. However, we are convinced that many entrepreneurs continue to believe that only they are capable of making the right decisions for their firms. This study offers evidence to such individuals that the cost of their unwillingness to loosen their grip on organizational activities may be very severe indeed.

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