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Corporate Entrepreneurship and Innovation

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ENT628
Entrepreneurship

Lecture 3

Chapter
03

Structure in the entrepreneurial organization

CONTENTS

- The need for a hierarchy
- Organizational structures
- Limitations to the hierarchy
- Organic structures
- Combining organic and hierarchical structures
- Structure, task, and environment
- Control, autonomy, and motivation
- New forms of organizing
- Network structures

Chapter
03

Structure in the entrepreneurial organization

LEARNING OUTCOMES

- Explain and give examples of how size, structure and different organizational forms interact and how they are related to the tasks being undertaken and the environment in which an organization operates.
- Critically analyze new forms of corporate organizations such as networks and strategic alliances.
- Understand the balance managers need to have between controlling staff and giving them more autonomy and how that applies to different contexts.
- Critically evaluate the structure of an organization.

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Chapter
03

Culture in the entrepreneurial organization

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- Culture
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- Organizational I culture
- The cultural web
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- Measuring organizational culture

Chapter
03

Culture in the entrepreneurial organization

LEARNING OUTCOMES

- Critically analyze the meaning of culture, giving examples of the dimensions along which it can be measured
- Critically analyze what is meant by the entrepreneurial culture of an organization, recognizing its most important elements, and how it can help create an entrepreneurial architecture; Construct the cultural web of an organization
- 'Critically evaluate the culture of an organization and describe the managerial tools available to help construct or reconstruct it.

- **culture** is the personality of the group, the prevalent norms, basic beliefs and assumptions about behavior that underpin it.
- **culture** defined as the 'collective programming of the mind which distinguishes one group of people from another: Culture is therefore based upon hidden and unspoken assumptions about the 'right' way to behave. It is a pattern of taken-for-granted assumptions and beliefs shared by individuals collectively about how they are.
- Its is 'invented, discovered, or developed by a given group: **Culture is important** because it manifests itself in the way people are inclined to behave. Along with other factors like personality, rules and laws, it influences behaviour. It influences how individuals view life and underpins their mental models. It influences the dominant logic of a group

- Individuals are likely to belong to more than one group and therefore will be **influenced by the sub-cultures** created by these groups: family, nationality, religion, education, tribe, ethnic or social group, age, etc. Each of these groups will have its own different and some times conflicting culture.
- One group culture might be strong - where people have a strong sense of the 'right' thing to do - another weak. **Cultures evolve over time under this multitude of influences.** They can therefore change and also be shaped and influenced over time. Individuals 'learn' the culture of the group {and sub-group) and it is passed down or taught to new members through the norms and conventions of the group.

Chinese --- USA

The Dimensions Of Culture

The four dimensions:

- **Individualism versus collectivism**
- **Individualism** This is the degree to which people prefer to act as individuals rather than groups. Individualistic cultures are loosely knit social frameworks in which people primarily operate as individuals or in immediate families or groups.
- **Collectivism** By contrast, collectivist cultures are composed of tight networks in which people operate as members of 'in-groups' and 'out-groups; expecting to look after, and be looked after by, other members of their 'in-group: In the individualist culture, the task prevails over personal relationships and the atmosphere is competitive.

The Dimensions Of Culture

- **Power distance** : This is the degree of inequality among people that the community is willing to accept.
- Low power-distance cultures endorse egalitarianism, with open and informal relations, functional and unrestricted information flows, and organizations that tend to have flat structures.
- On the other hand, high power-distance cultures endorse hierarchies, with more formal relations, restricted information flows, and organizations that tend to be rigid and hierarchical.

The Dimensions Of Culture

Uncertainty avoidance - This is the degree to which people prefer to avoid ambiguity, resolve uncertainty, and prefer structured rather than unstructured situations.

- **Low uncertainty** avoidance cultures tolerate greater ambiguity, prefer flexibility, stress personal choice and decision-making, reward initiative, experimentation, risk-taking, and team-play and stress the development of analytical skills.
- **High uncertainty** avoidance cultures prefer rules and procedures, stress compliance, punish error, and reward compliance, loyalty, and attention to detail.

The Dimensions Of Culture

- 'Masculinity' (versus 'femininity ') –

This defines quality of life issues. Hofstede defined 'masculine' virtues as those of achievement, assertiveness, competition, and success.

International Influences On Culture

- This is the sort of culture that many other countries have been trying to promote and develop because it seems to encourage the characteristics that are needed to develop the largest number of entrepreneurs.

The USA shows us the anatomy of a national enterprise culture: one that encourages individual enterprise and entrepreneurship, one where there is the highest probability of an entrepreneur being made, rather than just born.

Measuring An Individual's Culture

Leading -This scale gauges the degree of respect and deference shown to authority figures (power distance}. (China, Russia)

Deciding -This scale measures how group decision-making is consensually compared to relying on one person (the boss). (Japanese)

Trusting -This scale balances task-based trust (from the head} with relationship -based trust (from the heart). In task-based cultures (e.g., the USA, the UK, Germany) trust is built through work. In relationship -based societies (e.g., Brazil, China, India} trust is built by personal networks

Measuring An Individual's Culture

Communicating - This scale measures the degree to which a culture prefers low- or high-context communication.

(Germany)

Evaluating - This scale measures the relative preference for direct versus indirect criticism. There is no direct link between this and the communication scale.

(Spain)

Persuading -This scale measures preference for principles-first (theory) vs applications-first arguments (practice}.

(British)

Measuring An Individual's Culture

Disagreeing - This scale measures how confrontation is viewed -whether it improves or harms relationships. Some countries are comfortable airing differences .(Indonesia)

Scheduling - This scale measures whether time and time-keeping are as seen as flexible.
(India)

Organizational Culture

- Defined organizational culture simply as 'the set of values, understandings, and ways of thinking that is shared by the majority of members of a work organization, and that is taught to new employees as correct
- In an earlier work, Schein (1983) extended this definition to include how these values and ways of thinking came about by defining it as 'the pattern of basic assumptions which a given group invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration, which has worked well enough to be considered valid, and therefore to be taught to new members as the correct way to perceive, think and feel in relation to those problems..

THE CULTURAL WEB

- **Organizational structures** -The structures of an organization should be consistent with its culture; if this is not the case then there is a disconnect between how people are inclined to behave and how they are supposed to behave. Structures might be quick and easy to change, but that does not mean that there will be a change in culture, at least in the short term.
- **Control systems** - These are the systems that monitor, measure and incentivize the behaviour of individuals, including the metrics against which their performance is judged (there must be mechanisms that encourage employees to suggest innovative ideas and obtain the resources to investigate them).

THE CULTURAL WEB

- **Routines** -These are the ways in which people work and act towards each other. They enable the organization to run smoothly and perform routine tasks. They may be partly rule-based. For example, when they first join firm many graduates have an induction program that involves them undertaking routine 'shopfloor' tasks so as to get them to understand the different roles performed within it. However, not all rules may be written down and because of this, they can be difficult to uncover and to change. On the other hand, because they involve this tacit knowledge they can be difficult to copy.

THE CULTURAL WEB

- **Rituals** -These are the regular events and traditions of the organization, such as annual appraisals, sales conferences etc. They are the things that indicate what the organization values. Employee innovation awards, 'seed-corn' funding and/or 'free time' for innovations indicate the importance an organization places on that activity.
- **Power** -This is also closely linked to the organizational structure, although people can also have power that is not shown in a hierarchical organization chart, for example because individuals have experience, information, knowledge or just charisma . Finding out where the real power lies in an organization can often lead to unexpected places. It can also lead to unintended consequences.

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THE CULTURAL WEB

- **Person culture** - This is where the organization serves the individual and the individual thrives through their personal expertise.
- **Power culture** - This is where power is concentrated in a single source, with communication and authority radiating out from the center. Hall (2005) found that innovation did not occur in a power culture.
- **Role culture** - This is where delegated power is exercised through clearly defined roles and strict procedures and individuals are judged by how well they adhere to these.

The Need For A Hierarchy

- Larger organizations have been trying to become more entrepreneurial and responsive to changing markets for some time by 'deconstructing' themselves - that is, breaking them selves down into smaller units.
- They seem to recognize that **size can be the enemy of entrepreneurship** and innovation.
- A number of trends have been apparent over the last few decades. The problem is that **the bigger an organization becomes, the more it needs structure** and, usually, that means hierarchy - and it is a hierarchy, not necessarily size, that can inhibit the speed of response and decision-making.
- Too much hierarchy or the wrong kind can become overly bureaucratic.

The Need For A Hierarchy

- Hierarchy creates **structure** and with it comes order.
- It gives managers confidence that they have the **authority to manage** (called the hierarchy of authority).
- Hierarchy facilitates the coordination of **complex tasks** whilst allowing specialization and cooperation, albeit with permission. Hierarchy, then, remains the basic structural form used by all companies today.

The Need For A Hierarchy

- A **simple hierarchy** offers fewer **interactions** and relationships to manage. It is **more efficient** - faster and less prone to error.
- The problem comes when the manager at the top of the hierarchy or the entrepreneur at the center of their spider's web can no longer control the number of staff they have.
- Managers and entrepreneurs can typically **only manage about 15 to 20** people. **Beyond that, it becomes increasingly inefficient.**

Organizational Structures

- There is no one 'best' structure.
- As an organization grows, it needs structure to avoid this sort of chaos.
- Each level of the hierarchy might represent a particular grouping or sub-grouping within the organization. This fosters stability and encourages efficient, rule-driven operation..

Organizational Structures

- When the organization grows beyond a certain size, there is a tendency for it to adopt a divisional structure - representing different product or market groupings - with each division then having its own departmental structure.
- This can be taken further by setting up each division as a subsidiary of the parent company, implying an even greater degree of freedom. There are no rules but four of the principal bases for grouping employees into departments and divisions are common tasks, common products, geographic proximity, and processes (sales, manufacturing, R&D, etc.).

Organizational Structures

Some hierarchies might be 'tall' structures - with more managers each having a narrower span of control (fewer people reporting to them).

Others might be 'flat' structures - with fewer managers each having a wider span of control (more people reporting to them).

This has been a recent trend, facilitated by improvements in information technology. the trend towards delayering and flattening organizational structures. Associated with this trend is decentralization - the pushing down of decision-making to lower levels in the organization.

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Limitations To Hierarchy

- In its simplest form, the traditional hierarchical structure is mechanistic, bureaucratic, and rigid.
- This has been called a 'machine bureaucracy' because it is most appropriate where the organization {or sub-organization} is tackling simple tasks with extensive standardization, in stable environments, and/or where security is important and where plans and programs need to be followed carefully.

Limitations To Hierarchy

- Chapter 1 painted the picture of the environment in which entrepreneurial organizations thrive: environments of change, chaos, complexity, competition, uncertainty and even contradiction, where innovation is essential. These are hardly the characteristics in a machine bureaucracy, with its 'simple' {rather than 'complex'} tasks and it is stable' {rather than 'changing'} the environment might thrive. A machine bureaucracy is the antithesis of an entrepreneurial structure. **Layers of hierarchy impede information flows, lengthen decision-making, and can kill flexibility and initiative.**

Organic Structures

it is constantly forming and reforming to meet the changes it faces as it undertakes those **complex tasks**.

According to complexity theory, this forming and reforming whereby business units are continually being created, **merged, and redefined is typical of a complex system coping with unpredictability**.

In its simplest form, an organic structure might be thought of as a partnership of **individual professionals**. They are each highly autonomous and the organization exists simply to provide them with support rather than direction. It is the simplest of spider's webs, with no hierarchy and a flat organizational structure. Indeed, a large organic structure might comprise a series of spider's webs, each operating **almost autonomously and collaborating in a loose and changing manner**.

Combining Organic And Hierarchical Structures

- Like the spider's web structure, the organic **structure on its own probably only works with 15 to 20 people**. It is therefore probably best used in combination with more **traditional hierarchical structures, and with a designated leader**.
- have special needs) (oil companies such as ExxonMobil). Typically, divisions have greater freedom of action than departments; in particular, each division might adopt a different organizational structure, along with the appropriate other elements of organizational architecture, depending upon the basis for their existence.

Combining Organic And Hierarchical Structures

- It is unlikely that one organizational structure - particularly an organic one - **will suit all situations or will last forever** since organizations naturally change and adapt, so an entrepreneurial organization, like a chameleon, has to be prepared to **change its organization structures to suit different situations and environments**. design rapidly and quickly in an entrepreneurial organization: 'Organizational designs that facilitate variety, change, and speed are sources of competitive advantage.

- Task complexity increased with environmental uncertainty and the amount of information that needs to be processed by the decision-maker. Tasks involving cognitive skills can be complex.
- If the situation faced by individuals in completing these tasks is changing, the task becomes even more difficult.
- These two factors -task complexity and environmental uncertainty -have implications for both organizational structure and management style.

- The principles are straightforward. The simpler and more repetitive the task, the easier it is to impose control and the less need there is for initiative.
- Similarly, the more stable the environment , the less the need for initiative.
- But rigid control stifles initiative (and inhibits entrepreneurship), and therefore the more complex the task, the greater the need for flexibility and autonomy of action. Similarly, the more change or uncertainty in the environment, the greater the need for flexibility and autonomy

Structure, Task And Environment

- In many ways, far more important than the formal organization structure for a firm of this sort is the culture that tells people what needs to be done and motivates them to do it. It is most appropriate for project-based production businesses.
- Generally, the less stable and predictable the environment an organization operates in and the more complex tasks that the staff face, the greater the autonomy staff should have, relying more on strong entrepreneurial leadership to give them direction and motivation..

Structure, Task And Environment

- hierarchy can hinder innovation and 'control by letting go' is generally seen as more effective than tight controls.
- Less hierarchy allows organizations to create value by making decisions faster than competitors and autonomy is a key element in this

Control, Autonomy And Motivation

- Many authors have emphasized **the need for autonomy in promoting creative and entrepreneurial behaviour** and others have found links between job autonomy and innovative behaviour .
- It turns out that **autonomy can be a great motivator for staff undertaking cognitive tasks where initiative and creativity are important.**
- **Monetary reward was a motivator for individuals undertaking mechanical tasks, it was not a motivator for individuals under taking cognitive tasks involving complexity or creativity**

Control, Autonomy And Motivation

- For employees undertaking creative tasks there were **three key motivators**
- **Autonomy** - freedom of action and self-direction, not being told what to do or how to do it, which encourages people to enjoy what they are doing (e.g., Google's 20 per cent freedom policy).

Direction/ Space or slack/Boundaries Support

Control, Autonomy And Motivation

- For employees undertaking creative tasks there were **three key motivators**
- **Purpose** - a reason for doing something based not upon monetary remuneration but upon a wider vision of what the organization can achieve (e.g., from CSR policies) .
- Goal-setting should be carefully managed
- Clear and specific
- Individuals should be given freedom in how the goals are to be achieved
- Individuals should be allowed to learn from their own mistakes.

Control, Autonomy And Motivation

- **Mastery** - the challenge of completing a complex or creative task. Pink cites Wikipedia and Linux as initiatives that have engaged highly skilled people in creative tasks without monetary remuneration .
- For employees undertaking creative tasks there were **three key motivators**

New Forms Of Organizing

- The shift towards a knowledge economy with competitive advantage becoming based more upon the organization's ability to assimilate and exploit information, knowledge and capabilities quickly .
- The internet has encouraged the development of crowdsourcing and open innovation to stimulate knowledge transfer and innovation, whereby an organization can benefit from the skills, knowledge and ideas of external individuals.
- Improvements in mobile communication technologies. Computers, smartphones and the internet have made corporate boundaries permeable. They make communication easier and quicker and have changed the nature of work and its environment.

NETWORK STRUCTURES

- Big companies increasingly find it difficult to deal with this new age of uncertainty and super-competition. Start-ups and smaller ventures seem to find opportunities in the changes that these larger, more established firms find threatening. They react by innovating to better meet customer needs.
- The success of large companies forces them to focus on the parts of the business that generate the biggest profit, emphasizing efficiency, and neglecting the newer parts and potential innovations. The companies become more bureaucratic, dominated by notions of economies of scale: 'It is no accident that when you become a massive company your R&D [research and development] is a tiny part of the enterprise.'



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Thank You

