Global Advanced Research Journal of Management and Business Studies (ISSN: 2315-5086) Vol. 4(7) pp. 285-290, July, 2015
Available online http://garj.org/garjmbs/index.htm

Full Length Research Paper

Moderating Effect of Organizational Environment on Intrapreneurial Orientation and Firm Performance

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Accepted 13 July 2015

Research shows that the organizational environment helps firms to deal with continuous changes and uncertainty in the market while intrapreneurial orientation is a key attribute for accessing productive resources that motivate intrapreneurs towards business continuity and growth performance since the key likely problems of any firm is growth and survival. Thus, for better performance, firms need to not only be integrated but also lay emphasis on building a cooperative organizational environment. While studies have to a great extent emphasized intrapreneurial orientation as having an impact on firm performance, most of them are based on the context of big corporations in developed countries. The purpose of this study was to examine the moderating effect of Organizational Environment on Intrapreneurial Orientation and Firm Performance. The study population composed of 51 Beverage manufacturing firms and 93 Bakery manufacturing 93 firms in Kampala metropolitan area. The main data collection instrument was self-administered questionnaire, which was distributed to the respondents. The data collected were analyzed using descriptive frequencies, percentages and correlation methods. Results show that organizational environment positively affects the relationship between intrapreneurial orientation ($r=.361^{**}$, $p<.01$) and firm performance ($r=.527^{**}$, $p<.01$). This means that as intrapreneurs invest more in proactiveness, innovation and risk taking, growth in sales, competiveness in quality, response to customer needs and survival will be enhanced in the business. It is recommended that small firms should focus on creating an entrepreneurial environment that enables employees to voice out their endeavors and discoveries. This can be done through enhancing organizational structures, reward system and resource supply. Further, establishing realistic structures allows open communication, autonomy and transparency within the firm. Adoption of commensurate reward systems motivates employees towards novelty and commitment while adequate resources especially time will encourage generation and commercialization of new and improved ideas.

Keywords: Organizational Environment, Intrapreneurial Orientation, Firm Performance

INTRODUCTION

Research shows that the organizational environment helps firms to deal with continuous changes and uncertainty in the market while intrapreneurial orientation is a key attribute for accessing productive resources that motivate intrapreneurs towards business continuity and growth performance since the key likely problems of any firm is growth and survival (Zhang & Yung, 2006). Thus, to increase better performance probabilities, small firms with resource restrictions, need not only to be integrated but also to lay emphasis on building a cooperative environment through networking (Otero-Neira, Lindman, & Ferna´ndez, 2009).

While studies have to a great extent emphasized intrapreneurial orientation as having an impact on firm performance, most of them are based on the context of big corporations in developed economies (e.g. Peng & Shekshnia, 2001; Dail et al., 2002; Gartner and Birley, 2002., Ireland et al., 2003). Walter *et al*. (2004), and Bewayo (2004), point out that, small firms in Uganda are started as a result of necessity factors and entirely managed by a single individual. As a result, the firms continue to present several problems such as high failure rate, low sales & market share, uncompetitiveness and product duplication (Kasekende & Opondo, 2003, Hatege, 2007). Similarly Ocici (2007) admits that the rate at which the Small firms collapse is on the rise and may continue to increase if nothing is done to avert the situation. He suggests that firms whose focus is growth and competitiveness require a suitable organizational environment however these firms operate against heavy odds and slight changes in the external environment hit them strongly. The purpose of this study was to examine the moderating effect of Organizational Environment on Intrapreneurial Orientation and Firm Performance.

The Conceptual Framework

The level of intrapreneurial orientation influences firm performance in terms of survival, market share growth and competitiveness; however the level of influence is moderated by the prevailing environment within the firm.

The conceptual frame work for the study is developed from exiting literature and the model illustrates the relationship between intrapreneurial orientation, organizational environment and firm performance. Figure 1 presents the conceptual framework.

LITERATURE REVIEW

Firm performance

Hamilton (2007) and Salvou & Avlonitis (2008) measured growth in terms of increase in sales turn over. This factor has provided the most common means of operationalising business growth for reason that they its relatively uncontroversial methodologically and data tends to be easily available (Delmar *et al*., (2003); Freel and Robson, (2004); as cited by Dobbs and Hamilton (2007).

The difficulties in meeting customers' actual needs can put the firm's competiveness at risk (Flusche *et al*., 2001). Owing to the dynamism in competition over time, firms need a new dimension of response, in terms of technology, products, markets and employee perceptions, with a focus of turning these challenges into profitable opportunities in order to survive and flourish in such a competitive environment (Irwin, 2000). Thus, firms with intrapreneurial orientation should be able to respond quickly to competitive challenges and market opportunities before their competitor firms.

The Moderating Effect of Organizational Environment

Jeffrey Hornsby and Donald Kuratko, together with different co-authors, have reviewed the literature from the late-1980s onward, and have found five internal enablers of intrapreneurial orientation, consistent with the main literature: rewards, management support, resources (including time), organizational structure, and risk-taking (Kuratko et al., 1990; Hornsby et al., 2002). Similarly, Lumpkin and Dess (2001) found a positive relationship while linking two dimensions of intrapreneurial orientation to firm performance. However, based on an empirical analysis, Kuratko et al. (2004) only found management support, organizational structure, resources and rewards significant. Antoncic and Hisrich (2004) were in support of the above argument and they advanced that organizational factors such as management support and rewarding intrapreneurial activities are important in relation to intrapreneurial orientation and firm performance. Therefore the study will adapt structures, reward and resources as measures to operationalize the influence of organizational environment in the study.

Covin and Slevin (1990) define organizational structure as the arrangement of workflow, communication, and authority relationships within an organization. A study by Altinay & Altinay, (2004) reported positive associations between decentralized structure and intrapreneurial orientation and these associations have been explained in terms of increased autonomy and control over resources, which enables organizational members to initiate and test more innovative ventures as well as social relations. These authors claim that a decentralized and informal structure would assist in information sharing, empowering lower level managers, initiating increased participation from team members and thus promoting innovation. Whereas open structures have been considered a critical element for innovation and social ties, Pinchot (1985) contends that an overly excessive use of formal controls can inhibit intrapreneurial orientation and social relationships within organizations.

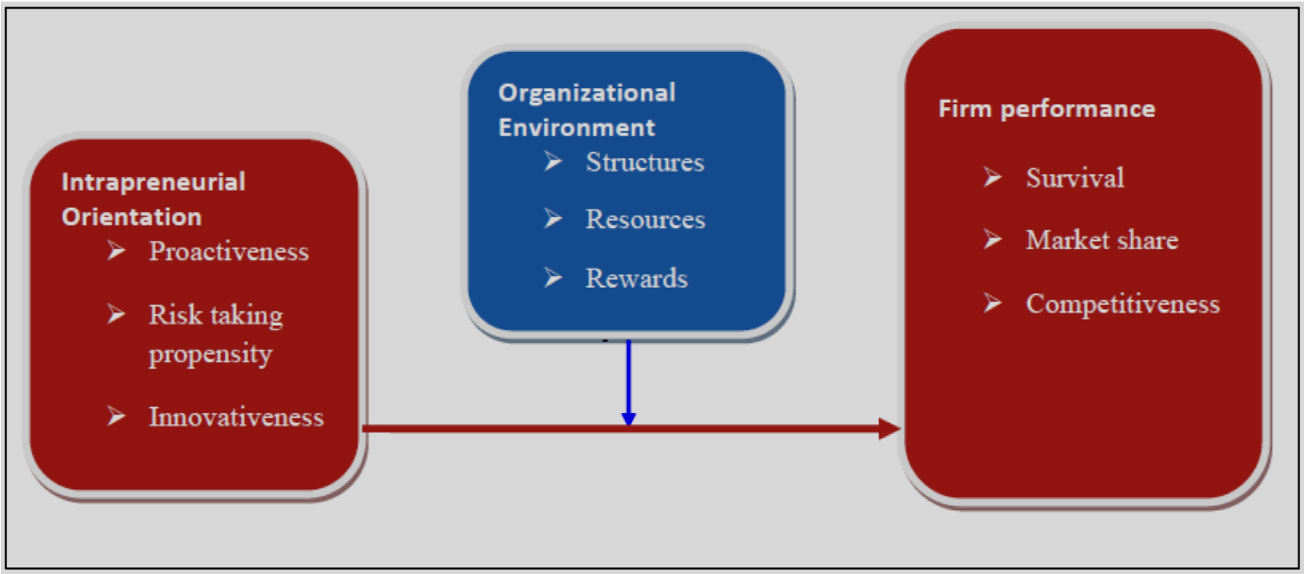

Figure 1. Conceptual framework (Source: *Adapted from Pena, 2002; Nerys & Esyllt, 2004; Christian et al., 2006; Zhang and Si, 200;, Lumpkin et al. 2009)*

Some authors (e.g. Morris and Kuratko, 2002; Sathe, 2003) stress that intrapreneurial behaviour can be influenced by effective reward systems that must consider clear goals, feedback, individual influence and rewards based on results or it can be related to the performance of the firm. Covin and Slevin (1990) express agreement with these views that besides having a positive culture, intrapreneurs need to be appropriately rewarded by the leadership for all the energy, effort, and risk taking expended in the creation of the new products. These rewards should be based on the attainment of established performance goals.

According to Sathe (2003), people are motivated by different things. Entrepreneurs may seek rewards such as the pride that comes from starting their own business and the prospect of financial gains, whereas intrapreneurs value other incentives, which are not always clear. Morris and Kuratko (2002) note that intrapreneurs are motivated by controllable rewards such as "regular pay, bonuses, profit share, equity or shares in the company, expense accounts, job security, promotions, expanded job responsibilities, autonomy, public or private recognition, free time to work on pet projects, money for research or trips to conferences"

In practice however it can be more difficult to differentiate between entrepreneurial and intrapreneurial incentives, as not all entrepreneurs or intrapreneurs are motivated in the same way. In addition to the structure and rewards, intrapreneurs need financial resources to get off the ground (Hornsby et al., 2002; Sathe, 2003). Bukh et al (2005) concluded that, the most important resource in the knowledge society is knowledge itself, and knowledge is not just the fundamental driver of innovation, but also an important part of the company's competitive advantage. Simons (2000) added that, as organizations become larger and more complex, they are challenged to find a way to nurture and empower innovative, opportunity seeking, entrepreneurial employees, whilst encouraging accountability.

METHODOLOGY

Study Population

The study population is composed of Beverage manufacturing (51 firms) and Bakery manufacturing (93 firms) in Kampala metropolitan as captured by the Uganda Business Register 2006/7 (UBOS, 2007). Therefore the total population will be 144 firms.

Sampling Procedure and Target Sample Size

The study used a disproportionate stratified sampling procedure to select the appropriate strata of the business subsector. Small scale manufacturing firms were stratified according to subsectors based on Sekaran (2000), who points out that particular stratum can be focused on for ease of data collection and attainment of meaningful results. The strata of two subsectors could also minimize classification errors based on Ahuja (2001). Two (2) respondents were purposively selected from the firm in order to target only

Table 1. Sampling Method and Size

Strata	Population	Sample size	Response rate
Beverage manufacturers	51	44	36 (81.8%)
Bakery manufacturers	93	73	49 (67.1%)
Total(s)	**144**	**117**	**85 (72.6%)**

Source: *Adopted from Report on the Uganda Business Register 2006/07 (UBOS, 2007)*

Table 2. Location

Category		Frequency	Valid Percent	Cumulative Percent
Valid	Nakawa	2	2.9	2.9
	Central	18	21.6	24.6
	Lubaga	12	14.6	39.2
	Kawempe	52	60.8	100.0
	Total	85	100.0	

Source: Primary Data

Table 3. Age

Period		Frequency	Valid Percent	Cumulative Percent
Valid	Less 1 yr	29	34.5	34.5
	1 - 2 yrs	39	45.6	80.1
	3 - 5 yrs	10	12.3	92.4
	6 - 10 yrs	6	7.0	99.4
	Over 10 yrs	1	.6	100.0
	Total	85	100.0	

Source: Primary Data

those who have decision making responsibilities and posses the required information. The unit of analysis in this study was small scale manufacturing firms in the five divisions of Kampala metropolitan and the unit of inquiry was individuals working within these firms. The target sample size is 117 business firms (Morgan, 1970). This is determined as follows;

Instruments and data analysis

The main data collection instrument was self-administered questionnaire, which was distributed to the respondents. The data collected were analyzed using descriptive frequencies, percentages and correlation methods.

FINDINGS

Location of Businesses

The distribution of the businesses by location was generated from tabulation of location of the business as shown in table 2 below. The aim was to determine the distribution of the businesses surveyed across the five regions studied.

The results in table 2 above showed that the majority of the businesses in the survey were observed to be in Kawempe division 60.8% while the divisions of Lubaga, Central and Nakawa had 14.6%, 21.6% and 2.9% respectively.

Table 4. Pearson Correlations

Correlations	**1**	**2**	**3**	**4**	**5**	**6**
Proactiveness-1	1.000					
Innovativeness-2	.215**	1.000				
Risk Taking Propensity-3	.187*	.114	1.000			
Intrapreneurial Orientation-4	.516**	.482**	.312**	1.000		
Organizational Environment-5	.246**	.072	.136	.361**	1.000	
Firm Performance-6	.303**	.234**	.332**	.494**	.527**	1.000
** Correlation is significant at the 0.01 level (2-tailed).						

Source: Primary Data

Age of business

The tabulations of businesses were generated to explore the distribution of the age of operation of each business. This was to determine the percentage distribution of the age of operation per business surveyed as shown in table 3.

Results in table 3 above showed that, the majority of the businesses surveyed had operated for a period of 1-2 years (45.6%) followed by those that had operated for a period of less than I year (34.5%). 12.3%, 7.0% and 0.6% had operated for a period of 3-5 years, 6-10 years and over 10 years respectively.

Correlation Analysis

Pearson (r) analysis technique was employed in examining the moderating effect of Organizational Environment on Intrapreneurial Orientation and Firm Performance as seen in table 4.

The correlations results in table 4 showed that the organizational environment positively affects the relationship between intrapreneurial orientation ($r=.361^{**}$, $p<.01$) and firm performance ($r=.527^{**}$, $p<.01$). This means that as intrapreneurs invest more in proactiveness, innovation and risk taking, growth in sales, competiveness in quality, response to customer needs and survival will be enhanced in the business. With availability of productive resources, presence of favorable structures and reward systems then the firm's performance is likely to improve. This is due to the fact that appropriate organizational environment motivates employees to become more intrapreneurial and as a result new opportunities, ideas and resources are identified.

DISCUSSION OF FINDINGS

The effect of organizational environment on intrapreneurial orientation and firm performance

Pearson's correlation indicated that there was a significant positive relationship between organizational environment and firm performance in small manufacturing firms. This means that highly favorable work environment would lead to an improved innovative capability of a small firm and thus improved firm performance. Building a firm's performance capability needs the commitment and drive of the employees to make necessary resource investments to innovate. This is more important in small firms, with resource constraints in the initial years of operation. This would be due to the fact that since, most business owners were attracted rather than impelled to join entrepreneurship, makes it possible not to have taken time to invest in research and development to enhance accumulation of new knowledge, generation of new ideas and support continuous improvements in products, sources of supply, markets and processes.

The findings are in line with Kuratko et al. (2004) who found that organizational structure, resources and rewards significant while linking intrapreneurial orientation to firm performance. The findings are also supported by Covin and Slevin (1990) who assert that intrapreneurs need to be appropriately rewarded by the leadership for all the energy, effort, and risk taking expended in the creation of the new products, markets and technologies. These findings are further supported by Altinay & Altinay, (2004) who assert that favorable work environment creates a condition that allows ideas and creativity to emerge, and these associations have been explained in terms of increased autonomy, reward and control over resources

CONCLUSION AND RECOMMENDATIONS

From the results of this study, it can be concluded that the organizational environment positively affects intrapreneurial orientation and firm performance. This suggests that with the availability of productive resources, presence of favorable structures and reward systems the firm's performance is likely to improve. This is due to the fact that appropriate organizational environment motivates employees to become more intrapreneurial and as a result new opportunities, ideas and resources are identified.

Since the organizational environment was found to positively moderate the relationship between intrapreneurial orientation and firm performance, it's recommended that small firms should focus on creating an entrepreneurial environment that enables employees to voice out their endeavors and discoveries. This can be done through enhancing organizational structures, reward system and resource supply.
Establishing realistic structures allows open communication, autonomy and transparency within the firm. Adoption of commensurate reward systems motivates employees towards novelty and commitment while adequate resources especially time will encourage generation and commercialization of new and improved ideas.

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