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Culture and innovation: The moderating effect of cultural values on corporate entrepreneurship

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ABSTRACT

In the few last decades researchers have paid attention to the role of entrepreneurship and innovation in productivity, employment, and economic and social development. In addition, literature has focused on the entrepreneurship that occurs within organizations, such as corporate entrepreneurship. Also, the role of culture is crucial for the development of innovation. Consequently, it is vital to understand why some firms are more innovative and develop more entrepreneurial projects than others, and what determines innovation performance. This research uses Institutional Economics as a conceptual framework with the objective of analyzing the environmental factors that condition innovation within the firms. Specifically, the study determines the moderating effect of cultural values on corporate entrepreneurship. The study uses a logistic regression and the Global Entrepreneurship Monitor – GEM – database from the years 2004–2008, with information of 62 different countries (718.758 observations). The main findings highlight the impact of the environmental factors on organizational innovation, specifically on corporate entrepreneurship. Variables such as living in an entrepreneurial culture and media exposure (informal factors), and the number of procedures necessary to create a new business or access to finance (formal factors), appear to be significant for corporate entrepreneurship. Moreover, informal factors behave as moderators between formal factors and corporate entrepreneurship. The article has several implications from both theoretical perspective (advancing in the application of Institutional Economics for the study of innovation within the firms) and from the practical point of view (providing insights for governmental policies interested in fostering innovation and corporate entrepreneurship).

1. Introduction

There is consensus among scholars that entrepreneurship is a key determinant of firm, regional and national economic performance [1,2]. Thus, in the few last decades researchers have paid attention to the role of entrepreneurship in productivity, employment, and economic and social development [3]. Entrepreneurship research has been expanding its boundaries by exploring and developing explanations and predictions of entrepreneurship phenomena in terms of events, such as new venture creation, innovation and entrepreneurial organizations [4]. In addition, attention has been paid to entrepreneurship that occurs within organizations, such as corporate entrepreneurship. Most empirical studies show a positive relationship between innovation and organizational performance [5–7]. Literature agrees that innovation can be considered an economic growth driver with significant implications for wealth creation [8]. Also, the role of culture is crucial for the development of innovation [1,9]. Consequently, it is vital to understand why some firms are more innovative and develop more entrepreneurial projects than others, and what determines innovation performance [10].

Despite all this, the factors that determine innovation in firms still remain somewhat unclear [11]. In addition, it is noteworthy that most empirical articles in this field do not

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use an explicit theoretical framework. This research uses Institutional Economics (IE) as a conceptual framework with the objective of analyzing the environmental factors that condition innovation within the firms. Specifically, the study determines the moderating effect of cultural values on corporate entrepreneurship. Previous research has tried to identify which organizational and environmental factors influence corporate entrepreneurship [9,12,13]. However, despite the fact that the institutional perspective has been widely used in entrepreneurial research [14], to our knowledge very few papers in the innovation field are grounded in this IE [9]. Besides, the institutional environment has historically been viewed as a determinant of entrepreneurial activity at both the individual and organizational levels [15]. The list of environmental conditions that can trigger innovation in established firms is quite extensive [16,17]. Schindehutte et al. identify no less than 40 "key triggers" of corporate entrepreneurship activity and organizational innovation, roughly half of which would be considered "environmental" in nature [18]. Thus, in terms of influencing entrepreneurship in general terms and specifically corporate entrepreneurship, the environment appears to be an important determinant [15].

This study used a logistic regression technique and a Global Entrepreneurship Monitor (GEM) database from the years 2004–2008. The GEM research program is an annual assessment of the national level of entrepreneurial activity and has become the largest survey-based study of entrepreneurship in the world. In addition, these data were complemented with data from the Doing Business project and from the International Monetary Fund (IMF). The Doing Business project provides objective measures of business regulations and their enforcement across 183 economies. The results highlight the impact of the environmental factors on organizational innovation, specifically on corporate entrepreneurship. Variables such as living in an entrepreneurial culture and media exposure (informal factors), and the number of procedures necessary to create a new business or access to finance (formal factors), appear to be significant for corporate entrepreneurship. Moreover, informal factors also have an indirect effect as they behave as moderators between formal factors and corporate entrepreneurship. The article has several implications from both theoretical perspective (advancing in the application of IE for the study of innovation within the firms) and from the practical point of view (providing insights for governmental policies interested in fostering innovation and corporate entrepreneurship).

The article is structured as follows. After this brief introduction in Sections 2 and 3 the conceptual framework and the research hypotheses are presented. In Section 4 the methodology used in the empirical part is detailed. Section 5 provides the results and discussion. Finally, Section 6 presents the main conclusions of the study.

2. Conceptual framework: corporate entrepreneurship and Institutional Economics

Since Schumpeter's description of the introduction of a novel good as an entrepreneurial action, many scholars have viewed innovation as one form of corporate entrepreneurial action [19,20]. As we mentioned before, corporate entrepreneurship (entrepreneurship within existing organizations) is an important element in organizational and economic development. Scholars and practitioners have shown interest in the concept since the beginning of the 1980s due to its beneficial effect on the revitalization and performance of firms [21]. The fact that corporate entrepreneurship is considered an important remedy for a lack of innovative and competitive capabilities within organizations has led the research in this field to flourish [12,22].

Corporate entrepreneurship has typically been characterized as a multidimensional construct. It has been defined as "the sum of a company's innovation, renewal, and venturing efforts" [23: 227]. In this case, innovation refers to the firm's commitment to introducing new products, production processes and organizational methods [24,25]. Venturing refers to new business creation [15,26] and strategic renewal (or self-renewal) refers to the creation of new wealth through new combinations of resources [27]. In addition, corporate entrepreneurship and innovation have been linked to the entrepreneurial orientation concept. In this regard, Miller defined an entrepreneurial firm as one that "…engages in product–market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch" [28,29]. In contrast, "…a non-entrepreneurial firm is one that innovates very little, is highly risk averse, and imitates the moves of competitors instead of leading the way…" [28: 771].

Overall, the adoption of innovative activities represents a fundamental change in firms' strategic behaviors in response to institutional changes [29]. It is commonly believed in mature markets that a firm without the ability to engage in some levels of corporate entrepreneurship will fail [30]. Hence, as the firm grows and evolves, an entrepreneurial transformation is necessary to achieve efficiency, improve productivity and create wealth [31].

2.1. Institutional Economics

IE suggests that human behavior is influenced by the institutional environment [32,33]. Hence, institutional theory is traditionally concerned with how people and organizations better secure their positions and legitimacy by conforming to the rules and norms of the institutional environment [34]. There are many definitions of institutions, Scott suggests that institutions consist of cognitive, normative and regulative structures and activities that provide stability and meaning in social behavior. These institutions are derived from rules such as regulatory structures, governmental agencies, laws, courts, professions, and scripts and other societal and cultural practices that exert conformance pressures [35,36]. Overall, these institutional patterns strongly influence economic behavior [32], organizational behavior [37], and innovation and entrepreneurship [31].

Most scholars follow North's definition, according to which institutions can be formal, such as political and economic rules and contracts, or informal, such as codes of conduct, conventions, attitudes, values and norms of behavior [32,33]. Formal institutions are subordinate to informal institutions in the sense that they are the deliberate means used to structure the interactions of a society in line with the norms and values that make up its informal institutions. North's definition implies that policy-making which attempts to change the formal institutions of society without measures to adjust the informal institutions in compatible ways will have marginal success [14].