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VALUE CREATION THROUGH ENTREPRENEURIAL ACTIVITY: A MULTIPLE CONSTITUENCY APPROACH

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Abstract

While both business press and scholarly research largely portray entrepreneurship within well-established companies as inherently good, empirical evidence for positive performance implications based on rigorous research is scarce. This paper empirically assesses whether and for whom entrepreneurial activity creates value in a large traditional firm. In contrast to previous research I adopt a less "heroic" view and emphasize day-to-day entrepreneurship—"getting things done in an entrepreneurial way"—instead of focusing on grand entrepreneurship, i.e. new venture creation or new product development. Furthermore, I consider the perspectives of multiple constituencies to assess performance implications over time, and acknowledge the value creation potential at the sub-unit level.

In the empirical part of the paper I analyze entrepreneurial activities of 121 middle managers in a large European financial services firm and their effect on changes in economic performance, customer satisfaction, and subordinate satisfaction. I combine subjective (survey) data on entrepreneurial activity and objective data on performance collected over three consecutive years (1997-2000). My results show that entrepreneurial activities of middle managers are positively and significantly related to change in economic results, measured in terms of profit growth. Non-significant results linking entrepreneurial activities and changes in customer or subordinate satisfaction suggest that entrepreneurial activities hardly connote a "quick fix" in these dimensions. The results furthermore accentuate the importance of personal characteristics of middle managers for the development of economic performance. My data suggest, for example, that female middle managers and managers holding lower-level educational degrees do significantly better in achieving profit growth.

Key words: Entrepreneurship, intrapreneurship, middle managers

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Introduction

Entrepreneurial activity has become a vital tool for established companies in striving for competitive advantage and above-normal returns (Covin & Miles, 1999). Research indicates that entrepreneurial activity within business organizations –viewed as a distinct mode of management based on opportunities (Stevenson & Jarillo, 1990)– is neither limited to size and age (Chittipeddi & Wallett, 1991) nor confined to particular industry sectors (Morris & Jones, 1999). While both popular and scholarly literature generally transmit the view that entrepreneurial behavior is inherently "good" (Wiklund, 1999), empirical evidence remains scarce and we still know relatively little of whether and if, for whom entrepreneurial activity creates value in established organizations.

This paper explicitly addresses this issue. In the empirical part of the study I analyze entrepreneurial activities of 121 middle managers of a large European financial services firm and their effect on financial results, customer satisfaction and subordinate satisfaction measured at the sub-unit level and over time. Based on qualitative fieldwork, I develop an original measurement instrument to assess middle managers' entrepreneurial activity, and apply multivariate techniques to link subjective (survey) data on entrepreneurial activity and objective data on performance collected over three consecutive years (1997-1999).

The main objective of the paper is to elucidate how distinct entrepreneurial activities by individual managers trigger superior performance and therefore enhance effectiveness and create value (1). In the following sections I first review the literature on entrepreneurship within established firms and introduce my approach. Second I present the logic for linking entrepreneurial activity to three different dimensions of performance and derive the corresponding hypotheses. Third, I summarize research design and data analysis, and present the results. I conclude by discussing the main findings and the contribution to theory and managerial practice.

Background and literature

For years, popular press and academic literature have been praising entrepreneurship as an effective means to fight inertia, stagnation, and lack of innovation in large traditional companies. However, rigorous empirical research examining the link between entrepreneurship

(1) In the context of this paper I use the terms value creation, organizational effectiveness, and performance interchangeably (March & Sutton, 1997).

and performance is still scarce (Covin & Slevin, 1991; Zahra & Covin, 1993). As a result our understanding of how value is created through entrepreneurial activity in the context of large traditional firms remains limited.

A review of the literature reveals a number of critical conceptual and methodological issues that account for the moderate success in advancing knowledge about entrepreneurial phenomena in general and the entrepreneurship-performance link in particular. First, existing conceptualizations of entrepreneurship and performance rarely consider the complexity inherent in both constructs. Traditional concepts of entrepreneurship typically refer to dispositions (Miller, 1983) or orientations (Lumpkin & Dess, 1996), largely overlooking that it is activities that form the core of entrepreneurship (Gartner, 1988). Furthermore, previous empirical studies assessing the entrepreneurship-performance link very rarely take into account the goals of various stakeholders in pursuing entrepreneurial strategies and actions. In other words, the multiple dimensions of the performance construct are hardly considered.

Second, prior research has been biased towards specific settings, levels of analysis, and methods. Zahra et al. (1999), for example, reviewed 45 empirical entrepreneurship studies and found that 85% were carried out in manufacturing companies, and overwhelmingly referred to US companies. In addition, while many entrepreneurial activities occur at the level of divisions, previous studies almost exclusively center at the firm level and therefore neglect the value creation potential at the subunit level. Very few studies combine quantitative and qualitative methods or rely on context specific measurement instruments research. Last but not least, prior research has hardly recognized long-term and time lag effects in assessing performance implications of entrepreneurship. Entrepreneurial endeavors involve ample resource commitment, require both firm and individuals to endorse new behavior, and need time for markets and clients to react. Thus, portraying them as a "quick fix" and neglecting time as a critical factor in affecting performance is neither realistic nor efficient.

Because entrepreneurship is not a static concept but evolves and changes over time, original research designs and context specific conceptualizations and measurement instruments are fundamental to deepen and broaden existing research. In this paper I concentrate on testing the particular link between entrepreneurial activity in a large organization and relevant dimensions of performance rather than testing general theories.

Before presenting the conceptual arguments and specific hypotheses I briefly summarize my approach.

Advocating a behavioral approach to study entrepreneurial phenomena

This paper exclusively focuses on entrepreneurship within established companies. I use the term interchangeably with "intrapreneurship", a term introduced by Pinchot (1985) and referring to the idea of bringing the mindset and behavior of "stand alone" entrepreneurs into established organizations. Building on a behavioral tradition (Stevenson & Gumpert, 1985; Stevenson et al., 1990), I view entrepreneurship within established organizations as a set of interlocking opportunity-based activities by competent and purposeful (individuals) managers, who—through their actions—can make a difference and are bounded by context. Accordingly, I conceive entrepreneurship within firms not as disembodied, but as composed of acts of individuals (Bird, 1988; Herron & Sapienza, 1992), and examine entrepreneurial activities at the individual level. As Stevenson et al. (1990) suggest, any "opportunity for the firm has to be pursued by the individual" and "it is individuals who carry out entrepreneurial activities, no matter how they are defined" (2).

Definitions of entrepreneurship vary substantially in scope, i.e., the range of activities they include. Typically, they are restricted to discrete entrepreneurial events such as the creation of new organizations (Gartner, 1988), new ventures (Vesper, 1985), new entry (Lumpkin et al., 1996), or new product development (von Hippel, 1977). While important, narrowly defined notions of grand entrepreneurship remain inapplicable to various entrepreneurial phenomena occurring in large companies. In this study I adopt a less heroic view and emphasize day-to-day entrepreneurship aimed at "getting things done in an entrepreneurial –innovative and unusual– way".

Accordingly, I define entrepreneurial activity within existing organizations as

> *…a set of activities and practices by which individuals at multiple levels autonomously generate and use innovative resource combinations to identify and pursue opportunities.*

Innovation, autonomy and opportunities are defining elements of entrepreneurship in general (Lumpkin et al., 1996; Miller, 1983; Stevenson et al., 1990). Opportunities represent future states that are both desirable and feasible; they depend on individuals' preferences and perceived capabilities, and vary over time (Stevenson et al., 1990). The term innovation, as used in this paper, does not solely refer to technological novelty but is employed in a commercial sense. Innovation is not limited to technological development but can be understood as a process through which resources are developed and utilized to generate higher quality or lower cost processes, products and services. The meaning of autonomy, as employed here, goes beyond traditional views—perceiving autonomy as "free" from structural or hierarchical constraints—and refers to independent behavior based on "the ability and will to be self-directed in the pursuit of opportunities" (Lumpkin and Dess, 1996, p. 140).

However, entrepreneurial activity within large traditional organizations is distinct. It includes a spectrum of activities ranging from independent/autonomous to integrative/cooperative behavior (Ghoshal & Bartlett, 1994; Kanter, 1982). Within large traditional organizations managers as "entrepreneurs" need to build on the uniqueness of their units, and at the same time profit from similarities with other units. They need to continuously balance "exploration" of new resource combinations with "exploitation" of existing organizational capabilities (Normann, 1977).

Opportunities to act entrepreneurially arise within and outside the organization. As such managers can become entrepreneurial, first, in they way they lead and guide their subordinates, second, in the way they build and organize their unit, and last but not least, in the way they meet challenges from customers and markets (Mair, 2001). It is the set of these actions that constitutes entrepreneurial activity, which is at the center of this study.

In sum, entrepreneurial activity as viewed in this paper denotes a specific management style, "a way to use or expand companies' resources to raise long-term

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(2) Emphasizing that it is individuals that carry out entrepreneurial activities, I do not rule out that such activities can occur at the organizational or group level. Yet organizations and groups are composed of individuals and any activity can be broken down into sets of individual acts or interacts (Weick, 1979).

capacity" (Kanter, 1982). It integrates behavioral complexity, a necessary condition for effective managerial behavior in established organizations (Denison, Hooijberg, & Quin, 1995), and includes 1) the identification of opportunities regarding business, internal processes and procedures, markets, products, approaches towards customer and employees; 2) the allocation, commitment and innovative use of resources to pursue these opportunities; 3) supervision; and 4) integration of entrepreneurial opportunities into ongoing activities.

Advocating a multiple constituency approach to assess the effectiveness of entrepreneurial activity

The central issue for organizations to ensure effectiveness [and continuing cooperation] is to balance the competing claims of its various stakeholders (Barnard, 1938). It has been repeatedly argued that overall effectiveness is not limited to financial or economic performance but reflects a firm's strategic intent and overall goals (Kaplan & Norton, 1996; Connolly et al., 1980). Thus, to accurately relate entrepreneurial activity to performance it is essential to translate the goals of multiple stakeholders in pursuing entrepreneurial endeavors into distinct measures of performance.

The logic for traditional companies to encourage entrepreneurial activity across hierarchical levels is straightforward. Entrepreneurial activity is typically conceived as an efficacious means to ensure continual innovation, growth and stimulate value creation (Hamel, 1999). It is set out to, first, provide more flexibility in meeting distinct customer needs, second, create a proactive and stimulating work environment, and third, boost financial results. In sum, it is anticipated to create long-term value for customers, employees and shareholders.

In this study I explicitly consider the perspective of this set of stakeholders in operationalizing performance. Drawing from interdisciplinary literature in marketing and organizational behavior, I subsequently derive hypotheses for the effect of managers' entrepreneurial activities on change over time in economic performance (financial results), subordinate (employee) satisfaction, and customer satisfaction.

Theoretical arguments and Hypotheses

The Effect of Middle Managers' Entrepreneurial Activity on the Development of Economic Performance

This paper suggests a positive relationship between entrepreneurial activity and the development of various indicators of performance. The principal thrust of the argument for a positive effect on economic performance hinges on two of the defining elements of entrepreneurial activity, i.e., innovation and opportunities. Theoretical and empirical evidence exists on the positive link between innovative behavior and economic performance. Active search and pursuit of business and market opportunities elicit first-mover advantages, which in turn create competitive advantage and result in improved financial results. Inside the business unit innovative use of resources to explore and exploit opportunities regarding products and processes constitutes dynamic organizational capability, critical to ensure competitive advantage and organizational effectiveness (Teece, Pisano, & Shuen, 1997).

While the positive effect of entrepreneurial activity seems undisputed, little consensus exists on how to measure or operationalize economic performance (Chakravarthy, 1986; Wiklund, 1999). In general, researchers emphasize two main aspects: growth and profitability (Covin et al., 1991). Following Lumpkin et al. (1996), who stress the need to integrate these two dimensions of performance, I analyze economic performance in terms of profit growth (growing financial results) at the sub-unit level.

Thus I propose:

Hypothesis 1: Entrepreneurial activity of middle managers has a positive effect on the development of the economic performance of their business unit.

The Effect of Middle Managers' Entrepreneurial Activity on the Development of Customer Satisfaction

Customer satisfaction has gained increasing attention as a fundamental element in the strategic orientation and expressed vision of large traditional companies. Its use as a performance indicator, however, is particularly complex as it touches on psychological and sociological issues.

One of the key determinants of customer satisfaction as identified by the marketing literature is the level of customization of products and services (Anderson, Fornell, & Rust, 1997). Customization requires flexibility of managers to adapt to the needs and preferences of customers. An entrepreneurial approach to management gives rise to such flexibility, as it involves the necessary "freedom" to act flexibly. Autonomous and self-determined behavior, key elements of entrepreneurial activity, furthermore spur creativity in developing original and innovative ways of approaching customers.

Entrepreneurial ways to "do business" and to "organize business units" facilitate the provision of customer-tailored services and products, which critically affects customers' perception of quality. Customers' perceived quality of products and services in turn is –as empirical and theoretical evidence in the marketing literature indicates– one of the most significant factors in explaining customer satisfaction (Anderson & Sullivan, 1993).

Accordingly I propose:

Hypothesis 2: Entrepreneurial activity of middle managers has a positive effect on the development of customer satisfaction in their business unit.

The Effect of Middle Managers' Entrepreneurial Activity on the Development of Subordinate Satisfaction

Entrepreneurial activity as conceived in this paper is not merely concerned with pursuing opportunities externally but rather refers to a holistic view on management. Such a view implies that important opportunities to act entrepreneurially also arise inside the organization. Innovative ways to re-organize units, to lead and guide subordinates, e.g., are important activities performed by middle managers in traditional companies. These activities are key to diffuse the entrepreneurial spirit throughout the sub-unit and to foster a stimulating working environment. They aim at instilling a sense of empowerment and enhance the level of perceived autonomy and self-determination among employees at all levels. Based on theoretical and empirical evidence that associates employees' perceptions of empowerment and autonomy with enhanced satisfaction at the workplace (Spreitzer, 1995; Thomas & Velthouse, 1990), I suggest:

Hypothesis 3: Entrepreneurial activity of middle managers has a positive effect on the development of subordinate satisfaction in their business unit.

Methods

Research in fields lacking a unifying paradigm such as entrepreneurship substantially benefit from adopting exploratory research designs, and focusing on empirically derived rather than purely theoretical models (Bygrave, 1989). Instead of testing general theories I concentrate on testing the particular link between entrepreneurial activity and relevant dimensions of performance. I focus on one company, which allows to attentively capture the phenomenon, identify relevant dimensions of performance, and develop context specific measures for entrepreneurial activity, the main explanatory variable. Furthermore it allows reducing "noise" by holding constant several important determinants of entrepreneurial activity at the firm level, such as incentive systems, corporate culture, official information flows.

Setting

In 1997, ABN AMRO—a large Dutch financial service company—launched a project to promote entrepreneurial activity, and accordingly reshuffled its operations in the Netherlands. It split the domestic market into approximately 200 micro markets and appointed an area manager for each of these newly created independent units. Each unit belongs to one of 11 regional units, and area managers, although autonomous in principal, formally report to their general regional manager. Area managers were expected to manage their unit in an entrepreneurial way and diffuse entrepreneurial spirit throughout the organizations. It is the activities of these area managers – middle managers—and their impact on various indicators of performance that is at the center of this study.

Sample and procedures

Following March & Sutton (1997), who foresee retrospective biases in self-reported performance variables but not in assessing independent variables, I used objective sources (company archives) to collect performance data for the period 1997-2000, and relied on self-reported data to assess entrepreneurial activity (3).

Procedures

The data collection process included 1) forty semi-structured interviews (with middle managers, their bosses and subordinates) to operationalize entrepreneurial activity and to identify relevant performance dimensions; 2) a comprehensive questionnaire completed by middle managers to assess entrepreneurial activity; and 3) the collection of objective performance data on economic performance, customer satisfaction and subordinate satisfaction over three years.

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(3) "Retrospective reports of independent variables may be less influenced by memory than by a reconstruction that connects standard story lines with contemporaneous awareness of performance results" (March & Sutton, 1997).

Sample

The final sample consisted of 121 middle managers. Out of a total population of 207 area manager, 150 managers answered the questionnaire (response rate of 72%). To follow performance over time (1997 until the end of 1999) and to ensure comparability I delimited the analysis to the 121 middle managers that assumed their job with the launch of the entrepreneurial project at ABN Amro at the beginning of 1997 (4).

I evaluated non-response biases by comparing regional distribution, size, and performance of the units in the "returned" sample with the ones in the "not-returned" sample. No significant differences were found. As suggested by the relevant literature I eliminated social desirability effects as much as possible by clarifying introductions and accurate phrasing of questions (Rossi, Wright, & Anderson, 1983).

Respondents

The sample of managers who returned the questionnaire and started their job in 1997 exhibited the following characteristics: Four percent of all middle managers in the return sample were female, and 71% of all respondents were less than 50 years old. The educational level was quite high: 77.3% have enjoyed higher education (39% hold university degrees). These results are consistent with the distribution in the overall population of middle managers working for ABN Amro in the Netherlands. On average, managers in the sample had been with the company for 22 years and were responsible for 59 employees. Depending on the size of unit the latter number ranged between 14 and 217 employees.

Measures

Dependent Variables

As mentioned I used a measure of profit growth to assess the development of economic performance of middle managers. The profitability dimension was captured by the financial results (income margin), while the growth dimension was captured by an index comparing the results of 1997 with those of the end of 1999 (1997 = 100).

The development in *customer satisfaction* was also measured by an index that captured the growth in customer satisfaction in the time period 1997-1999 (1997 = 100). Within ABN Amro customer satisfaction at the unit level is assessed on an annual basis. Accounts of customer satisfaction refer to the percentage of very satisfied customers.

Similar to customer satisfaction, *subordinate satisfaction* within ABN Amro is assessed at the unit level via survey on an annual basis. Accounts of subordinate satisfaction state the percentage of satisfied employees, i.e., those employees who indicated their level of satisfaction with 1 or 2 on a scale ranging from 1 (= total agreement) to 5 (= total disagreement). Again, I captured the development of subordinate satisfaction by employing an index capturing the period 1997 till 1999 (1997 = 100).

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(4) Because of its particularities with respect to both business and inhabitants, one area—the national airport Schiphol—had to be excluded from the analysis with respect to economic performance and customer satisfaction. For another area no economic performance data was available. In sum, the final sample to assess change in economic performance consisted of 119 areas. The sample to examine customer satisfaction had 120 areas, and the one to examine subordinate satisfaction 121 areas.

Independent Variable

Based on interviews with experts and middle managers I developed and pre-tested a context-specific instrument to measure entrepreneurial activity. The instrument includes questions about the extent to which middle managers engaged in particular entrepreneurial activities (1 "no extent", to 7 "to a great extent"). The five items constituting the final scale captured the main defining elements of entrepreneurial activity in large traditional organizations, i.e., its balanced nature, innovation, autonomy and opportunity. They reflect the spectrum of activities needed to manage a business unit in a traditional organization focusing on process and structure, on employees, and on customers and markets. The scale demonstrated highly satisfactory internal reliability (Cronbach alpha = 0.76). For a detailed description of the scale construction process and the final measurement instrument see Mair (2001).

Control variables

I controlled for initial levels of performance (Finkel, 1995), for personal characteristics of the managers (gender, age, education and professional background), as well as for the particular characteristics of their units (the particular region where the unit is located, the size of the unit, the level of wealth, and the level of competition in the unit) (5).

While literature in organizational behavior has extensively argued that superior performance can to a large extent be attributed to the person, strategic management literature has traditionally emphasized situational characteristics such as size and/or the level of competitiveness as critical variables affecting superior performance. Attempting to reconcile both literatures, I controlled for personal characteristics of the managers as well as for the particular characteristics of their units. Personal characteristics reflect gender, age, level of education, and professional background. I used dummy variables for all of these: gender (male / female), age (above / below 50), education (high: university or higher vocational education / secondary or primary school), and professional background (similar position as middle managers in same geographical location / different geographical location / another position within the domestic division).

To control for unit-specific characteristics I included variables reflecting the particular region where the unit is located, the size of the unit, the level of wealth, and the level of competition in the unit. I used dummy variables to indicate the unit (in an 11-region total); the number of full time employees as a proxy for the size of the unit; the average prices of houses as an indicator of the level of wealth in the unit; and the ratio of ABN Amro bank branches divided by the total number of bank branches in the unit as an estimate for the level of competition.

Results

Analysis

I conducted multiple regression analysis (OLS) to test the hypotheses put forward in the previous section. Three equations were estimated, each corresponding to one of the three

(5) By controlling for the initial values, I take into account the likely negative correlation between initial scores on a variable and subsequent change, a phenomenon generally known as "regression to the mean" (Finkel, 1995).

dependent variables –development in economic performance, customer satisfaction and subordinate satisfaction.

Table 1 presents the descriptive statistics (means and standard deviations) and Pearson correlation matrix for all variables. To check for multicollinearity I assessed VIF and tolerance statistics, which both indicate acceptable levels and did not compromise the theoretical and empirical validity of the study.

Effect on the Development of Economic Performance

Table 2 illustrates the results of the multiple regression analysis. Hypothesis 1 suggested a positive association between middle managers' entrepreneurial activity and change in economic performance (profit growth) over time.

The full model was highly significant ($F= 2.71$, $p < 0.001$). It explained 33% of the change in economic performance measured in terms of profit growth. The analysis reveals that, indeed, entrepreneurial activity exerted a significant and positive effect on change in economic performance, even after controlling for personal and unit specific characteristics (0.16, $p < 0.1$). Thus hypothesis 1 was supported.

Besides the principal independent variable, a number of variables reflecting personal characteristics significantly affected change in economic performance. For example, gender had a significant negative effect on profit growth (–0.15, $p< 0.1$), suggesting that units managed by female managers perform better than units managed by male managers. However, it is important to note that the number of female area managers is relatively small. Only 3.4% of the managers in the sample were female. The level of education had a highly significant negative effect on profit growth (change in economic performance) (–0.31, $p<0.001$), suggesting that units managed by managers with university degrees or higher vocational training perform worse economically than those run by managers that merely enjoyed primary or secondary education. Last but not least, the professional background of middle managers also significantly affected profit growth. I applied three categories to characterize the middle managers' background: 1) managers who assumed a different position in a different geographical location before 1997, 2) managers who assumed a similar position within the same geographical location, and 3) managers who assumed a similar position in a different geographical location. Managers who did not change content and location exhibited a significantly lower growth in economic performance (–0.35, $p<0.001$) than their colleagues who changed both content and place.

In contrast to variables reflecting personal characteristics, control variables regarding the specific business units did not exert significant effects on profit growth. The only exception consisted of units in the region of Overijssel, which revealed significantly lower levels of profit growth than the region of Amsterdam (6).

Last but not least, the initial level of financial results did not exert any significant effect on the level of profit growth in the individual units.

(6) The particular regions are coded as dummy variables. Ten dummy variables (for 11 regions) are created and the region of Amsterdam is used as a region of reference.

Table 1

Means, Standard Deviations, and Correlations of All Variables

	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	4	15	16	17	18	19	20	21	22	23
1 Growth financial results [a]	134.24	23.61																							
2 Growth customer satisfaction b	116.64	31.82	.056																						
3 Growth subordinate satisfaction	118.55	12.65	-.006	.038																					
4 Entrepreneurial activity	4.72	0.93	.205	.005	.029																				
5 Financial result 97[a c]	4,781	5,133	-.098	-.134	-.243	.007																			
6 Customer satisfaction 97[b]	20.16	6.06	.200	-.371	.202	.214	-.256																		
7 Employee satisfaction 97	57.73	5.13	-.035	-.057	-.623	.034	-.028	.016																	
8 Age	0.33	0.47	-.090	-.042	.042	.006	.079	.052	-.129																
9 Education	0.77	0.42	-.128	-.077	-.069	-.132	.078	-.112	-.026	-.073															
10 Bkg- other area	0.17	0.37	.103	-.069	.038	-.018	.000	.063	-.041	.018	-.020														
11 Bkg- same area	0.41	0.49	-.240	.112	.111	.004	-.176	-.006	.048	.124	-.097	-.373													
12 Region Limburg	0.06	0.23	.329	.021	.338	.058	-.169	.361	-.177	.052	.052	.176	.080												
13 Region Den Haag	0.06	0.23	-.018	-.081	.024	-.156	.002	-.080	.051	-.174	.052	-.015	-.136	-.061											
14 Region Zuid West	0.11	0.31	-.028	.094	.186	.148	.018	.138	-.325	.267	-.063	-.083	.034	-.086	-.086										
15 Region Utrecht	0.08	0.28	-.095	.021	-.066	.056	.278	-.246	.122	-.020	-.120	-.053	.053	-.074	-.074	-.104									
16 Region Gelderland	0.11	0.31	-.064	-.038	.029	-.036	-.044	.086	.154	.040	.001	-.154	-.020	-.086	-.086	-.120	-.104								
17 Region Overijssel	0.09	0.29	-.138	.106	-.079	-.074	-.134	.075	.081	.083	-.031	.014	-.032	-.078	-.078	-.110	-.095	-.110							
18 Region Noord	0.11	0.31	.004	-.109	-.109	.114	-.050	.177	.191	.040	.001	-.154	.088	-.086	-.086	-.120	-.104	-.120	-.110						
19 Region Haarlem	0.09	0.29	-.046	-.018	-.046	-.006	-.060	-.121	-.074	.022	-.099	.246	-.090	-.078	-.078	-.110	-.095	-.110	-.100	-.110					
20 Region Rotterdam	0.15	0.36	-.075	.063	-.057	-.017	-.018	-.140	.013	-.244	.009	.064	.027	-.104	-.104	-.145	-.125	-.145	-.132	-.145	-.132				
21 Region Ostbrabant	0.06	0.25	.060	-.064	-.091	-.166	.126	-.011	.069	-.046	.067	.061	.047	-.066	-.066	-.092	-.080	-.092	-.084	-.092	-.084	-.111			
22 Size	62.6	47.92	.102	-.172	-.266	.043	.804	-.191	-.052	.130	.150	-.087	-.303	-.198	.003	-.023	.088	-.021	-.076	.048	-.096	.015	.035		
23 Competition	14.43	7.50	.062	-.033	-.064	-.087	.063	-.192	.024	-.188	.035	.087	-.196	-.158	.439	-.053	.055	-.136	.031	-.305	.049	.137	-.032	.172	
24 Wealth[d]	122.60	25.85	-.167	-.045	-.033	-.075	.184	-.427	.059	-.025	.100	.042	.059	-.088	.091	-.231	.424	.077	-.141	-.380	.223	-.122	.124	-.048	.254

For correlations greater than 0.18, $p < 0.05$. For correlations greater than 0.023, $p < 0.001$.

[a] N=119;, [b] N=120

[c] in 1000 Euro; [d] in 1000 HFL

Table 5-2

Results of Multiple Regression: Effect of Entrepreneurial Activity on the Development of Different Dimensions of Performance

Independent Variable	**Economic Performance**	**Customer Satisfaction**	**Subordinate Satisfaction**
Entrepreneurial activity	**0.16***	**0.11**	**0.06**
Initial Performance			
Financial results in 1997	-0.16		
Customer satisfaction in 1997		-.68***	
Subordinate Satisfaction in 1997			-0.68***
Personal characteristics			
Gender	-0.15*	-0.07	-0.02
Age	-0.01	-0.05	-0.02
Education	-0.31***	-0.07	-0.50
Background: similar position as area manager in the *same* geographical location	-0.35***	0.01	0.07
Background: similar position as area manager in a *different* geographical location	-0.14	-0.06	0.04
Characteristics of area			
Region Limburg	0.17	0.25**	0.24**
Region Den Haag	-0.04	-0.05	0.13
Region Zuid West	-0.14	0.16	0.07
Region Utrecht	-0.21	0.03	0.10
Region Gelderland	-0.18	0.10	0.23**
Region Overijssel	-0.25*	0.16	0.07
Region Noord	-0.13	-0.02	0.15
Region Haarlem	-0.13	0.02	-0.02
Resion Rotterdam	-0.18	0.00	0.07
Region Oostbrabant	0.10	0.06	0.06
Competition	-0.10	0.02	0.04
Size	0.11	-0.23**	-0.24***
Wealth	-0.03	-0.31**	0.02
F	2.71***	2.77***	6.41***
R^2	0.33	0.36	0.56

Economic performance: n = 119. Profit growth was assessed by an index capturing financial results (income – costs) of 1997 – 1999 (1997 = 100).
Customer satisfaction: n = 120. Development in customer satisfaction was captured by an index comparing the % of very satisfied customers in 1997 and 1999 (1997 = 100).
Subordinate satisfaction: n = 121. Development in subordinate satisfaction was captured by an index comparing the % of positive feedback from employees in the particular unit in 1997 and 1999 (1997 = 100).
Values are standardized estimates. * p < .10; ** p < .05; *** p < .001

Effect on the Development of Customer Satisfaction

Hypothesis 2 suggested a positive relationship between entrepreneurial activity of middle managers and the development of customer satisfaction in their unit (see Table 5-2). The model constitutes a significant predictor of development in customer satisfaction ($F = 2.77$, $p < 0.001$). It explained 36% of the variance in the development of customer satisfaction. However, no direct effect of entrepreneurial activity on development of customer satisfaction was detected and hypothesis 2 was rejected.

In contrast to the analysis on economic performance, the initial level of customer satisfaction negatively and significantly (–0.68, $p < 0.001$) affected change in customer satisfaction, supporting the “regression to the mean” effect prominent in analysis of change (7).

While personal characteristics of middle managers exerted no significant effect, unit specific characteristics such as size and the level of wealth significantly and negatively affected the development of customer satisfaction (–0.23, $p < 0.05$; and –0.31, $p < 0.05$ respectively). With the exception of Limburg, which demonstrated significantly higher levels of growth in customer satisfaction compared to the reference region of Amsterdam (0.25, $p < 0.05$), no significant differences were detected among regions.

Effect on the Development of Subordinate Satisfaction

Hypothesis 3 proposed that entrepreneurial activity of middle managers positively affects the development of subordinate satisfaction in their unit. Table 5-2 illustrates the results. The full model was significant ($F = 6.41$, $p < 0.01$) and explained 56% of the variance of growth in subordinate satisfaction at the subunit level. However, as no evidence for a significant influence of entrepreneurial activity on the development of subordinate satisfaction at the workplace was found, hypothesis 3 was rejected. Initial values of subordinate satisfaction were significantly and negatively associated with growth in subordinate satisfaction (–-0.68, $p < 0.01$), indicating a “regression to the mean” effect. Personal characteristics again did not exert any direct effect, while the size of the unit exhibited a highly significant and negative effect (–0.24, $p < 0.01$). Two regions –Limburg and Gelderland– showed significantly higher levels of growth in subordinate satisfaction than the reference region of Amsterdam (0.24, $p < 0.05$; 0.23, $p < 0.05$).

Discussion

In this study I advanced and tested the idea that entrepreneurial activity is an important means to create value in large traditional organizations. Previous studies investigating the entrepreneurship-performance relationship have typically focused on the firm as primary level of analysis, have rarely considered time as critical factor, and have largely neglected the view of multiple constituencies in defining performance (Dess, Lumpkin, & McGee, 1999; Zahra et al., 1999). I moved beyond traditional research designs and examined the effect of middle managers' entrepreneurial activity on several dimensions

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(7) The “regression to the mean” effect refers to the tendency of individuals or units with large values on Y at one point in time to have smaller values at a subsequent time, and the tendency of individuals with small values on Y to have larger subsequent values (Finkel, 1995).

of performance over the course of three years. Building on literature from entrepreneurship, strategic management, marketing and organizational behavior, I argued that entrepreneurial activity –conceptualized as innovative use of resource combinations to explore and exploit opportunities– constitutes an important lever to create value for shareholders, customers and employees.

My analysis revealed that their entrepreneurial activities represent a significant driver of profit growth in large traditional organizations and therefore constitute an important lever to create value in large established organizations. This finding corroborates earlier, mainly theoretical claims that the quality of managerial actions determines growth (Ghoshal, Bartlett, & Moran, 1999). It also substantiates Penrose's idea that growth critically depends on individual managers carrying out new ideas and engaging in "entrepreneurial services" (Penrose, 1959). An idea that has been followed upon recently by the "new theory of economic growth", which proposes that it is individuals (and companies) exploring and implementing new and better ways of doing things that triggers growth and not capital or raw materials (Romer, 1989).

Furthermore, I find that personal characteristics of the entrepreneurial actors –largely ignored in previous performance studies– do matter. According to my data, female middle managers do significantly better in achieving profit growth in their units. The same holds for managers holding degrees from primary or secondary school, who do significantly better in triggering profit growth in middle management positions than their "highly" educated colleagues. One interpretation of this finding goes back to the "socially created" perception of the job of middle managers. Very often middle management positions are merely considered as "necessary" steps on the career ladder within large organizations. As for many career-oriented managers holding university or comparable degrees, they represent a temporary placement on the way to the top (management), the relative effort put into managing the unit is moderate. On the other hand, for managers with a low educational background, their jobs represent a superb opportunity to demonstrate their management competence, and in order to hold positions for longer periods of time, these managers tend to put in more effort and "care" more. Data also revealed a significant effect of the professional background of middle managers on profit growth. In short, the results suggest that changing geographical location of managers in the process of introducing a new –entrepreneurial– management style positively affects profit growth.

The non-significant effects on customer satisfaction suggest that a fine-grained analysis taking into account the multi-dimensionality of the construct is needed to elucidate its link with entrepreneurial activity. Drawing from the marketing literature, theoretical arguments for a positive effect on customer satisfaction were mainly based on customization as a key determinant of customer satisfaction. In the case of retail banking, however, customizing products might be somehow limited. In addition, the measure for customer satisfaction used in this study is rather broad and reflects overall levels of satisfaction. Nevertheless, the results suggest that, first, the bigger the unit the more difficult it is to satisfy diverse needs and demands of customers, and second, managing units with wealthy customers requires additional efforts to achieve high levels of customer satisfaction over time.

As the extensive literature on job and work satisfaction indicates, also subordinate (employee) satisfaction represents a complex and multidimensional construct (Agho, Mueller, & Price, 1993; Iaffaldano & Muchinsky, 1985). Thus, more detailed and fine-grained models might be necessary to disentangle the correlation between entrepreneurial activity and the development of subordinate satisfaction. However, the results of this study point towards the critical influence of size in determining satisfaction among subordinates. Managers of smaller units seem to be more effective in shaping the working conditions. Size seems to facilitate the diffusion of the entrepreneurial spirit, instilling a sense of empowerment and self-determination among employees, which amplifies the level of satisfaction at the workplace.

Contributions, Limitations and Future Research

Prior research had only limited success in pushing forward our knowledge on value creation through entrepreneurial activity in large established firms. This paper represents an original attempt to explore further the relationship between entrepreneurial activity and performance over time and illustrates that value creation is a relative concept and very much depends on the perspective of different stakeholders. Creating value for customers, for example, does not automatically imply value creation for subordinates or shareholders.

I was careful to adopt methods appropriate for an "infant field" lacking an advanced paradigm and concentrated on an in-depth micro-study linking managers' entrepreneurial activities to specific outcomes at the subunit level rather than testing general theory (Bygrave, 1989). Furthermore, I addressed and filled major conceptual and methodological gaps in the literature on entrepreneurship within established firms: first, I complement existing literature by conceptualizing entrepreneurship in terms of distinct managerial activities and by investigating their effect on performance at the subunit level. Second, I acknowledge that standards of performance vary between constituencies and therefore chose a measure of performance that reflects the objectives of multiple stakeholders in promoting entrepreneurial activity. Third, I respond to repeated calls to consider time lag effects and assess performance implications of entrepreneurial activity over time. Fourth, I expand the geographical and industries span of existing studies and study a large European company operating in the service sector. Last but not least, I complement existing research in entrepreneurship –mainly focusing on the firm level– and place the emphasis on value creation through entrepreneurial activity at the subunit level.

Nonetheless, a few limitations of the study and suggestions for future research should be pointed out. First, growth in the various dimensions of performance was assessed by taking into consideration the three years following the launch of the entrepreneurial project at ABN Amro. It can be argued that to accurately estimate time lag effects, a larger time horizon needs to be considered (Zahra et al., 1999). Second, although capturing behavior over three years, for accessibility reasons entrepreneurial activity was assessed at one point in time, whereas future analysis would benefit from measuring entrepreneurial activity longitudinally, i.e., at various points over time. Last but not least, future research would also gain from controlling for past performance. In this study, as units and management positions were newly created in 1997, data on past performance and activities did not exist.

Conclusion

The main objective of this paper was to elucidate the value creation potential of entrepreneurial activity in large traditional organizations. While not only the popular press but also scholarly articles tend to portray entrepreneurship as a quick fix to boost performance, the results of this paper show that the relationship between entrepreneurial activity and performance is more complex. My results show that, indeed, day-to-day entrepreneurship –doing things in large organizations in an entrepreneurial way– stimulates profit growth. However, while a positive effect on the development of economic performance is perceptible already in the short/medium run, consequences for the development of customer and subordinate satisfaction are more complicated to assess and may materialize only in the long run. For managerial practice this implies that top managers need to consider complexity of performance constructs and eventual time lag effects in both the design and evaluation of entrepreneurial strategies and projects.

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Appendix

VALUE CREATION THROUGH ENTREPRENEURIAL ACTIVITY:
A MULTIPLE CONSTITUENCY APPROACH

Scale to assess entrepreneurial activity

The following questions were intended to measure the managers' level of entrepreneurial behavior.

Please indicate whether you engaged in the particular activities described below.

If you did, not please circle 1. If you did engage in the activity, please specify from 2 - 7 the level of effort you put into it.

to no extent 1 2 3 4 5 6 7 to a great extent

I understand that in managerial reality it is rarely (seldom) possible to perform all activities one would like to because of time and organizational restrictions. Please bear in mind that I am interested in a realistic picture of YOUR work as a rayon* manager. Therefore it is important that you indicate your "actual" behavior and NOT what you consider as an "ideal" pattern if there were no constraints (restrictions).

- Changing procedures to facilitate client contact within the rayon
- Promoting entrepreneurial behavior of employees with initiatives that went beyond the ones suggested by head-office
- Proactively approaching new customers
- Actively investigating new market opportunities within the rayon
- Encouraging your employees to develop new ideas on how to do business

* The term 'rayon' refers to areas (units).