

**DISCIPLINING AND ENABLING ACTION:
CORPORATE GOVERNANCE INFLUENCING
CORPORATE ENTREPRENEURSHIP**

ABSTRACT

Corporate governance is occupied with the disciplining aspect of governance mechanisms on listed corporations. We claim that a theory of corporate governance has to consider the enabling aspects of the mechanisms, and has to abandon the empirical focus on one single corporate governance structure, the corporation with privately transferable property rights. A model is proposed that through propositions explain the relationship between corporate governance and corporate entrepreneurship in two types of corporate governance structures, the company and the association. Theoretically it is showed that different governance mechanisms influence risk behaviour and strategic opportunism differently, indicating that governance mechanisms have the capacity to restrain and stimulate corporate entrepreneurship.

A comprehensive theory of the firm has to include two important organisational processes, the governance of the firm and the development of the firm. These two processes of the firm have been elaborated in different scientific fields, thus creating a separation of two organisational processes that are distinctively intertwined in praxis. On the other hand, the bulk of research made on these two organisational processes has been focused on one single empirical domain, the listed capitalistic firm, i.e., corporations with privately exchangeable titles to collective rights, with the shareholder as the main principal and profit being the dominating motive of the corporation. In order to develop a theory of the corporation that includes both processes, and do not limit itself to one associational form, we propose a theoretical integration of CG and CE, with an empirical extension including corporations with non-transferable titles, such as public associations. In a rudimentary form, the integration is presented here as a model of corporate governance and corporate entrepreneurship.

Corporate governance (CG) deals with those mechanisms that determine the fate of the corporation (Schleifer & Vishny, 1997). It is focused on how the corporation, and especially the top managers, is disciplined in order to satisfy the dominant stakeholders of the corporation. The field is dominated by agency theory (Jensen & Ruback, 1983) and transaction cost theory (Williamson, 1996). They have been focused on the consequences of the factual separation of ownership and control that occurred in the large listed corporations, beginning at the start of the 1900 in US. While agency theory is focused on the ex ante situation of creating incentives that induce self-interested managers to maximise the value of the residual, transaction cost theory focus on the ex post situation of governing exchanges between potentially opportunistic parties.

Both theories assume silently business development to occur. The problem of the corporation is not its development, but the direction of the development, whether it will be in the interest of the top managers, or the residual owners. Thus, both theories are focused on capitalistic firms, and on disciplining self-interested or opportunistic creative parties.

Corporate Entrepreneurship (CE) deals with those factors that influence the process of creating new businesses within corporations in order to develop the firm and to enhance an firm's competitive position or the strategic renewal for existing businesses (Zahra, Jennings & Kuratko, 1999). Earlier attempts have been made by Peterson & Berger (1972), and Miller (1983). During the 80's the field expanded through attempts such as Peters & Waterman, 1982; Covin & Slevin, 1988; Hill & Snell, 1988; Jennings & Lumpkin, 1989; Guth & Ginsberg, 1990; Covin & Slevin, 1991; Kuratko, Hornsby, Naffziger, & Montagno, 1993 and Normann, 2001. Recently the field of CE has gained a more systematic approach, with

stronger theoretical content (Lumpkin & Dess, 1996; Zahra, Jennings, & Kuratko, 1999; Zahra, 1991; 1993a; 1999), with an attempt to find those factors that trigger and restrain business development in firms, i.e., creating new business by redefining the firm's products, or services, or by developing markets. CE is generally interpreted as activities within an existing firm that enhance the firm's proactiveness, its ability to innovate, take risk and seize opportunities (Covin & Slevin, 1991; Zahra, 1991).

As with the CG literature, the empirical focus of CE has been on capitalistic corporations, mainly large and listed (Zahra, 1991; 1993a; 1996) and to some extent on SMEs (Gabrielsson, 2002; Zahra & Huse, 2000). One of several reasons to this one-eyed view is the apparent simplicity it lend the theoretical work when limiting the performance variable to solely profit motives. It has been argued, however, for example by Lumpkin & Dess (1996) and Zahra (1993a), that factors such as overall satisfaction and non-financial goals of the owners have to be weighted more heavily in evaluating performance than mere financial goals. Especially in SME:s, financial goals could be less important than objectives of control preservation.

Thus, the science of disciplining action, i.e., CG, and the science of enabling action, i.e., CE, are separated, though they constitute two important processes of an corporation. The theoretical development of these two fields will suffer if they keep disregarding each other, and they will certainly not contribute to society if keeping these two processes theoretically separated. A few attempts have been made to find out the relationship between CG and CE (Hill & Snell, 1988; Zahra, 1996; Zahra & Huse, 2000; Gabrielsson, 2002), and we will continue this endeavour.

In the present paper we will make an attempt to integrate CG and CE into a simple model, claiming that CG influence CE through disciplining and enabling action.

CG and CE share in common their focus on capitalistic corporations, preferable listed ones. There is, however, nothing inherent in the concepts of CG or CE that excludes them from being applied on non-capitalistic corporations. All corporate corporations that transform input to output, and satisfy their stakeholders through its performance, are subject to corporate governance mechanisms since there are stakeholders trying to influence the corporation. It is equally true that all corporations have the capacity of corporate entrepreneurship, i.e. to develop its operations, in order to create higher stakeholder satisfaction through increased performance. The theoretical development of CG and CE will suffer relative to its potential, if they will be contextually bound to a taken-for-granted context of corporations with transferable titles to collective rights, such as listed firms. There is no logical or practical

reason to not include corporation with non-transferable titles to collective rights, such as public associations. In society, many resources are created and dealt with in public associations, such as sport organisations, non-for-profit organisations and voluntary organisations. In the present paper we make an attempt to show the potential of empirical extension through developing a model covering collective property rights, i.e., including all corporate corporations. The main implication of this extension is that the goal of the dominant principal cannot be assumed to be solely profit, but have to include non-financial goals as well. The theoretical consequences are considerable since the goals of the dominant principal determine the relevant performance variables for the firm, thereby influencing the course of corporate governance. For sake of simplicity, a corporation with transferable titles to collective rights we term a company, and a corporation with non-transferable titles to collective rights we term an association.

The paper is organised as follows: In the first section we define corporate governance and list the relevant governance mechanisms. In the second section we define the concept of corporate entrepreneurship. The third section is devoted to the explanation of the relationship between corporate governance mechanism and the two dimensions of corporate entrepreneurship, risk behaviour and strategic opportunism. The paper ends with conclusions, indicating the stimulating and restraining effects on corporate entrepreneurship by corporate governance mechanisms.

DISCIPLINING ACTION: CORPORATE GOVERNANCE

The influential Cadbury report (1992), defined corporate governance as: *"The system by which companies are directed and controlled..."* Although the definition does not mention particular stakeholders, it would be denying the obvious if not two groups of economic actors were recognised as the prime stakeholders in corporate governance, managers and principals. Managers are defined as the group of actors that have the right to influence the production function of the firm, i.e., the mix of the production factors (Berglöf, 1990). Principals are defined as the group of actors that have the right to formulate and implement the goal of the firm, to change the composition of top management, and to terminate the firm (cf. Alchian & Demsetz, 1972). The other stakeholders influence the firm to the extent that they are part of the firm and have power to influence it. Thus, stakeholders can influence the firm, and a subset of the stakeholders, the principals, can terminate the firm. With this property right definition of corporate governance, the principals of both public non-for-profit associations

and capitalistic joint stock companies are included, thereby avoiding the focus on the distribution of the residual.

The actors of a firm are embedded in an institutional milieu, consisting of behavioural rules such as habits, regulations and laws which influence the set of possible actions that are considered as legitimate to do and to prefer (Grannovetter, 1985; North, 1990). Thus, the milieu shapes preferences and put a limit on the set of corporate governance mechanisms that can exist (Lubatkin et al, 2002). Its influence is, however, not determinative since institutional rules can be broken. In fact, it could be claimed that breaking institutional rules is what characterises entrepreneurial actions.

The embedded actors have individual interest that is a function of a.) their individual preferences such as need of prestige and wealth, and b.) their position in the economic system, which tie them to networks where information and values are distributed. Although being embedded in the same institutional milieu, the actors differ in preferences due to individual and positional differences. Thus, the actors cannot be assumed to have goal congruence (Jensen & Meckling, 1976). The principals, having the right of terminating the firm, have both the institutional right and the incentives to reduce the goal incongruence between them and the managers. Corporate governance as a research subject is focused on how this conflict is mediated through different corporate governance mechanisms and what results it produce, ultimately the efficiency of the firm, i.e., the goal attainment of the firm. Thus, we define corporate governance as the institutionally determined set of mechanisms of control and their function of mediating the conflict between the dominating stakeholders of the firm, where the conflict is induced by individually and positionally created preferences, ultimately aiming at realising the dominating shareholders' goal of the firm.

The easiest corporate governance solution is to avoid the separation of functions and persons through internalising the conflict into one single person, making the principal the manager. This solution is, however, only possible in situations of very small firms. With growing size and with the possibility to enhance productivity gains through division of labour, with specialised information flow and competence, thus creating information and competence asymmetry between the principal and the agent, a functional and personal separation emerges between a principal and a manager.

Corporate governance consists of a set of mechanisms controlling the managers in order to realise the goals of the dominating stakeholders. Presently there is no specific theory with the capacity to deal with all available mechanisms in a systematic fashion. Thus, the field is left with the second best alternative, a typology of governance mechanisms. We offer a

typology of governance mechanisms that organise the mechanisms of governance according to its occurrence in the firm's transformation process, and to its main behavioural focus (Table 1.)

TABLE 1. A TYPOLOGY OF CORPORATE GOVERNANCE MECHANISMS

	THE FIRM AND ITS ENVIRONMENT			
BEHAVIOURAL FOCUS OF MECHANISM	<i>The firms input factors</i>	<i>The firms trans-formation process</i>	<i>The firms output</i>	<i>The firms environment</i>
<i>Premise</i>	<ul style="list-style-type: none"> • Market for managerial labour 	<ul style="list-style-type: none"> • Internal managerial labour supply • Organisation strategy/structure 		<ul style="list-style-type: none"> • Culture • Mass media
<i>Action</i>	<ul style="list-style-type: none"> • Debt capital 	<ul style="list-style-type: none"> • Board of directors 		<ul style="list-style-type: none"> • State legislation • Regulations
<i>Output</i>	<ul style="list-style-type: none"> • Equity capital 	<ul style="list-style-type: none"> • Auditing 	<ul style="list-style-type: none"> • Product market 	

The mechanisms are directed towards influencing the managers' behaviour through influencing the premises of the managerial action, directly influencing the action, or influencing the action indirectly through reactions on the output of the firm (cf Perrow, 1972). This dimension of the typology is important for principals since it indicates the knowledge needed by the principal in order to influence the firm through the managers. Inspired by Ouchi (1980) we can assert that output control is possible to utilise in order to influence managers when output is measurable in a meaningful way, such as the risk-adjusted profit, number of products sold and so on. Action control could be adequate when the principal have knowledge about the transformation process. Finally, premise control is relevant when it is hard to observe the output and when there is a high degree of information asymmetry and competence asymmetry between the manager and the principal.

The mechanisms of governance are located at the input factor markets of the firm, in the firm, at the output markets of the firm, and within the institutional environment of the firm. This dimension is important for principals since it indicates the accessibility of the mechanism, those inside the firm being easier to influence than factor markets and environmental factors.

The supply of capital creates opportunities for investments. Debt capital offer the opportunities through its being the basic external mean for investments, but puts a strain on actions due to its continuous demand on cash flow, and when facing risk of bankruptcy, its

right to discontinue the firm (Berglöf, 1990). Equity capital supplies the investment with risk capital, but to the cost of the residual and power, i.e., the right to discontinue the firm no matter risk of bankruptcy.

The supply of managers creates opportunities to get managers outside the firm with specific skills. Different intermediaries that can function as efficiency enhancing firms support these factor markets of capital and managerial labour. Especially the large corporations are supported by, e.g., investment funds at the stock market, and head-hunters operating at the managerial labour market.

In the transformation process of the firm, the board of directors, supported by a market for directors, aligns the strategy of the corporation with the organisational structure, with the ultimate capacity to give direct orders to the top management, i.e., to directly influence the action. The composition of managers through recruitment is performed through the use of the external and the internal managerial supply. The auditors make the scrutinising of the actions performed by the managers, in the interest of the principals and the state.

The output of the firm is subject to the competition level of the product or service markets. With increasing levels of competition, the restraints on management increase, ending at the perfect competition conditions, where not even price is possible to influence, thus making corporate governance a non-issue.

The governance mechanisms of a single firm are embedded in the firm's environment, constituted by culture, that bound rationality through traditions and norms (Lubatkin et al, 2002); mass media, that offers information and analyses of the firm to the public; and state legislation and regulations by associations, that influence actions through rules and sanctions.

The mechanisms of governance just listed are available in every firm. They differ, however, in substance because of differences in the firm's legal constitution, e.g., public associations and joint stock companies have different forms of equity capital, and they differ between different institutional milieus, e.g., differences in stock market efficiency, US having a strong stock market and Denmark having a weak.

These mechanisms are disciplining the managers and the firm in order to fulfil the goals of the major stakeholders. They can, however, create conditions of organisational development or organisational stability through its capacity to enable action. In order to explain the link between CG and the level of organisational development, we have to define organisational development, which we do in the next section by the use of the concept of corporate entrepreneurship.

ENABLING ACTION: CORPORATE ENTREPRENEURSHIP

In order to exploit the fruits of the division of labour, the principal does not only have to discipline the manager, but to enable managerial action. Enabling is not the opposite of disciplining, but a dimension of its own, where the environment and the principals contribute to the capacity of the managers to shape the production function of the firm in a productive fashion and ultimately, in an efficient manner. Enabling has, however, not being the subject of CG, but has been dealt with in the literature of Corporate Entrepreneurship (CE).

Corporate Entrepreneurship (CE) refers to the process of creating new business within established companies to improve profitability and enhance a company's competitive position or the strategic renewal for existing business. CE entails creating new business by redefining the firm's products, or services, or by developing markets. (Zahra, 1991). CE could be defined as activities within an existing firm that enhance the firm's risk taking and strategic opportunism, which is the firm's ability to be proactive and innovative (cf. Covin & Slevin, 1991; Lumpkin & Dess, 1996).

The essence of entrepreneurial risk taking is the commitment of different types of resources to a venture. If the firm has an abundance of resources, the risk of the venture could be high, but the risk for the firm is low, since it does not threaten the existence of the firm. Entrepreneurial risk taking is reserved for those ventures that bind so much resources that it constitute a threat for the firm's existence.

Strategic opportunism is the firm's capacity to perceive new opportunities and develop new strategies, be it new products or markets, and finally to redirect its resources. It is the creative destruction of a firm's established strategy, and represent the difference between intended strategy and realised strategy that Mintzberg termed emergent strategies. It can be subdivided into proactiveness and innovativeness (Covin & Slevin, 1991).

Proactiveness is the capacity to be able to interpret new demands, and to act upon this new interpretation, without being bound by the present strategy of the firm. Innovativeness is the capacity of a firm to make new combinations of resources within the firm and to create new products and services (Lumpkin & Dess, 1996). It constitutes what Schumpeter termed creative destruction through developing alternatives to the established products or technologies.

Corporate entrepreneurship has been claimed to be a posture (Covin & Slevin, 1991; Zahra, 1991; Huse & Zahra, 2000). Zahra (1993a) noticed that CE could have costs for the firm, making a too high level of CE harmful for the financial performance of the firm. We

assert that CE is always a cost for the firm, since it always binds or consumes resources. A manager considering a new market opportunity for one working hour, redirects one hour of managerial working time from considerations concerning, for example, production improvements to strategic opportunism. Therefore, since CE is a cost, firms can be hypothesised to vary their intensity and duration of CE (Zahra, 1993a). Consequently, we claim that CE is a propensity, i.e., a latent capacity to entrepreneurial activities that is triggered by situations that are experienced as critical in the firm, by the principals or other powerful stakeholders. CE is a costly activity, consuming resources and attention that could have been invested in the present operations. Thus, firms will tend to economise on CE activities. This further complicates the case, since the most important question turns out to be: What situations can be experienced to be critical, and thus triggering CE, and when and why is CE reduced?

One rudimentary way of dealing with this question is to assume that risk preferences influence the capacity to engage in CE, i.e., that the risk preferences influence the window of corporate entrepreneurship.

In the theory of CE, risk attitudes have been alleged as an exposure of CE (Zahra, 1993a). A more advanced conception of risk is, however, needed in order to understand the relationship between CG and CE. Inspired by Lumpkin & Dess (1996), we make a distinction between risk preferences and risk behaviour. We claim that risk preferences, especially the risk sensitivity and the level of risk assumed, are influenced by CG mechanisms, especially the capital structure. For example, abundance of resources stimulates a low level of risk sensitivity and to high levels of assumed risk. The risk preferences influence the firm's propensity to experience critical situations and to act entrepreneurial upon them, i.e., risk taking. Thus, risk preferences are influenced by CG mechanisms, and influence CE, especially the risk taking behaviour.

The risk distinction is needed in order to understand the concept of windows of corporate entrepreneurship. If CE is a propensity, it can be triggered and prolonged dependent upon the firm's ability to observe and acknowledge opportunities (cf. Zahra, 1993b). This ability is influenced by the risk preferences of the stakeholders. If the dominant stakeholders have preferences of high risk sensitivity, for example induced by very low levels of equity, making it very alert to changes, the stakeholders will very fast experience a threat, and, if other factors support the alertness, will stimulate the CE activities. Due to low equity, the risk assuming capital will be very fast consumed, thus putting debt at risk. When risking other people's money, the firm can even increase its investments in CE, assuming even larger risks.

Thus, with high-risk sensitivity, the window of CE starts early and has a long extension. If the equity is very large, for example, considering a public association that realise that government, be it state or local, will rescue an association in distress, the risk sensitivity will be low. Principals of the public association will be slow in observing and experience danger to the firm, thus CE activities will be triggered late. This will, however, not last for long since they realise, in this particular case, that government will be involved, through restructuring the association at best, close down at worst. Thus, a crisis will trigger CE activities late and they will last only a small time, making the window of CE late and small in publicly financed associations.

To summarise, we have claimed that CE is a propensity consisting of risk taking and strategic opportunism, and that the window of CE is dependent on risk preferences. We are now able to find the relationships between the disciplining force of the CG mechanisms and the enabling of CE.

A MODEL OF CORPORATE GOVERNANCE AND CORPORATE ENTREPRENEURSHIP

We integrate ideas of corporate governance and corporate entrepreneurship, claiming that the set of corporate governance mechanisms constituting the firm influence the firm's propensity for CE. We will argue that a certain corporate governance mechanisms will influence the firm's risk behaviour and the strategic opportunism. The mechanisms will influence CE in a stimulating, restraining or intermittent way, or it will have no discriminating influence at all. Propositions presented later in this section will indicate this.

We make our propositions based on corporations with different governance structure, the company and the association. The two governance structures are separated due to differences concerning the corporation's goal, the set of property rights, the principle of corporate decision-making, and finally, differences among the major stakeholders.

The basic difference concerns titles to property rights. The company has privately exchangeable titles to collective rights, whereas the association has non-transferable titles to collective rights, i.e. a member of an association deciding to leave the association is free to leave but cannot sell or gain anything from leaving, in contrast to the company where a private transfer will occur. By this, we expand the empirical area, covering all corporations with collective property rights. At the same time, we delimit the analyses from considerations of firms based on private property rights.

The principle decision-making in a company is based on the capitalistic logic of influence, i.e. the amount of capital determines the voting rights of the shareholders. The principle in an association is the democratically logic of influence saying that one member has one vote.

The company has, as the main goal, profit-maximisation. In SMEs it can be overridden by the goal of control (Zahra & Huse, 2000). Still, both types of goals are of a rather simple character in comparison to the association, which is characterised by a diverse set of goals due to its members' different interests and the ambition of the association to satisfy its members.

The company's major stakeholders are the shareholders and the managers, whereas the major stakeholders of the association are members and managers.

TABLE 2 THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CORPORATE ENTREPRENEURSHIP

CORPORATE GOVERNANCE MECHANISMS	CORPORATE ENTREPRENEURSHIP	
	<i>Risk behaviour</i>	<i>Strategic opportunism</i>
<i>Equity & Debt</i> <i>Company</i> <i>Association</i>	Stimulating No influence	Stimulating Intermittent
<i>Managerial labour</i> <i>Company</i> <i>Association</i>	Restraining Restraining	No influence Intermittent
<i>Organisation strategy</i> <i>Company</i> <i>Association</i>	No influence No influence	Stimulating Restraining
<i>Organisation structure</i> <i>Company, F-form</i> <i>Company, M-form</i> <i>Association, F-form</i> <i>Association, M-form</i>	Stimulating Stimulating Stimulating Restraining	Restraining Stimulating Restraining Intermittent
<i>Board of directors</i> <i>Company</i> <i>Association</i>	No influence No influence	Restraining Intermittent
<i>Auditing</i> <i>Company</i> <i>Association</i>	Restraining Restraining	Restraining Restraining
<i>Hostile Product market</i> <i>Company</i> <i>Association</i>	Stimulating No influence	Stimulating Intermittent
<i>State legislation/regulation</i> <i>Company</i> <i>Association</i>	Restraining Restraining	Restraining Restraining
<i>Mass media</i> <i>Company</i> <i>Association</i>	Restraining Restraining	Restraining Restraining

Table 2 is a summary of the model of the relationship CG and CE, and contains the propositions that will be derived later in this section. First two remarks about the model have to be made.

The model differs from the ordinary models of corporate entrepreneurship (Covin & Slevin, 1991; Zahra, 1993a; 1996; Lumpkin & Dess, 1996). These models are, as claimed earlier, not focused on corporate governance. The factors that influence CE in their models are divided into different kinds of factors, such as environmental factors, internal and external factors, and strategic factors. The present model is but a different way of organising these factors. The contribution and importance of the present systematisation of factors is that it is based on the concept of corporate governance, thus emphasising the interplay between disciplining and enabling action.

With the ambition to include all corporate firms, i.e., those having collective rights, performance becomes a problematic concept. It is a concept that is relative to the dominant stakeholders, and especially to the principals. In many models, profit is the sole performance factor. Others have argued that performance is a multidimensional concept (Lumpkin & Dess, 1996; Zahra, 1993a) With our ambition of making the model applicable to all corporate firms, performance of the firm has to be defined in its most theoretical proper way, that of principal satisfaction. Efficiency of an association is most likely not profit, but can for example be that of realisation of an idea, profit being but a budget restriction.

The model explores the relationship between CG and CE through propositions. It has to be emphasised that the sum of the propositions does not constitute a theory. This is so because we do not have one single theory covering both CG and CE. Thus, the character of the set of propositions will be eclectic.

Equity and debt

The capital structure influences the risk-taking dimension of CE directly. Principals of companies put their own money at risk and capitalise privately on the profit of the firm, representing high-risk preferences, making the principal very sensible to opportunities and market changes. Thus, the principals of the company have strong incentives to open the window of corporate entrepreneurship very early, when there are only slight indications of opportunities or threats. Threats and opportunities will foster strategic opportunism as long as there are equity in the capital structure. When equity is consumed and bankruptcy is facing the firm, the principal will engage in even more risky ventures, since failure will only strike debt, but success will also gain equity. Thus, when facing bankruptcy a company's principals

will further stimulate strategic opportunism. To summarise, we claim that the capital structure of the company induces an early and large window of entrepreneurship, implying that both the risk behaviour and the level of strategic opportunism is stimulated by the capital structure.

The association, being constituted by members that uses the firm for their own interest, do not experience capital, be it equity or debt, as a strong limitation. It constitutes only the capacity to prolong the existence of the association. Therefor the window of CE induced by the capital structure opens very late, and probably only when facing threats to the survival of the association. When the threat becomes very probable, the members of the association will lose faith in the association and disengage. Thus, an association will have a window that opens very late and shuts very soon, implying a slight or no influence on risk behaviour and an intermittent strategic opportunism, occurring during a short time span.

Thus, we summarise into capital structure propositions:

The capital structure of a company induces an early and large window of corporate entrepreneurship, i.e., a stimulation of risk behaviour and a stimulation of strategic opportunism.

The capital structure of an association will induce a late and small window of corporate entrepreneurship, i.e., no influence on risk behaviour and an intermittent level of strategic opportunism.

Managerial labour

Managerial labour can be influenced through recruitment processes, through internal development, such as promotion and education, and through the incentive system.

Through the recruitment process, the firm can employ managers with the appropriate entrepreneurial capacity that fulfils the will of the principal. Instead of guiding and disciplining managers, the low cost alternative is to employ those that consistently act in accordance to the principals will. The possibility to make a successful recruitment depends, among other things, on the size of the managerial labour market. A large managerial labour market, *ceteris paribus*, makes it easier to find the adequate manager. It can be assumed that companies have access to a larger labour market than associations because of their high power incentive system. Companies offer financial rewards, which is a reward with high flexibility since it can be used in many different situations, compared to fringe benefits, such as free car or free travel. It can also be assumed that the level of financial rewards is higher in companies than in associations. Thus, more would-be managers offer their capacity to companies than to associations. Through the higher level of supply, companies can with higher probability find

the manager with the risk attitude of the firm and the strategic orientation needed. Thus, we claim that the level of strategic opportunism is more stable in companies due to their recruitment process, i.e., the managerial labour market has no discriminating influence on strategic opportunism. The variation of recruited managers to associations is higher because of lower supply, thus creating a more intermittent level of strategic opportunism.

Management development is performed through education and promotion. The goal of the company is assumed to be a stable profit-maximisation goal. As the company is constantly trying to improve performance i.e. profit, they will encourage managerial development through education. Concerning promotion, the managers being promoted will be those that produce outcomes fulfilling the goals of the principal. Since the goals are stable, the promotion system will promote fairly consistent signals of proper action. Thus, we find that companies, due to the stable profit-maximisation goal, will have a stable level of strategic opportunism.

The association is characterised by non-financial goals that can differ depending on the ambitions and interest of the members. With variability in goals, the logic of promotion and education will vary over time, thus stimulating different behaviour over time. The level of strategic opportunism will therefore be intermittent.

A company with transferable titles to property rights can use these in order to stimulate managers. However, having its income from only one source, the firm, and its fortune invested through options in the same firm, creates a high risk exposure, thus creating incentives for risk reduction of the firm's operations. (Amihud & Lev, 1981). Thus, although having a high power incentive scheme available, the company incentive scheme implies a low level of risk behaviour. The association, lacking transferable titles to the property rights, has typically a low power incentive scheme, offering at best fringe benefits. However, firms do not only reward their managers through financial incentives, but reward manager's through social benefits and reputation. Social benefits, such as status, can be given to managers of large firms and firms producing something that is highly valued in society, such as taking care of sick persons. Reputation of the managers is influenced by the performance of the firm, for example high profitability or large increase in size. Social benefits and reputation is dependent on social acceptance, which creates a low level of risk taking. The reason for this is that entrepreneurial action implies breaking institutional rules. Very seldom is institutional rule-breaking supported by society. Thus, managers that need social benefits and reputation do not have a high-risk behaviour.

The influence of the mechanism of managerial labour upon corporate entrepreneurship can be summarised in the following propositions:

The managerial labour of a company will restrain risk behaviour and have no influence on strategic opportunism.

The managerial labour of an association will restrain risk behaviour and foster an intermittent level of strategic opportunism.

Organisation strategy

It has been emphasised that a prerequisite for a company's success and improved performance is a fit between the CE activities and corporate strategy as (Zahra, 1991; Burgelman and Sayles, 1986). Specifically, growth strategies are predicted to stimulate CE (Zahra, 1991). An internal growth strategy calls for extensive "in-house" innovation and venturing, in almost every functional area within a corporation. Firms that follow an external-growth strategy, expansion by broadening the scope of business and markets, are also expected to support CE. Firms following a steady strategy will be less disposed to pursue CE. A strategy of stability usually requires making only incremental increases in the scope of business and focuses on maintaining the past rates of financial performance without making significant changes in the firm's competitive posture.

The company will tend to grow through increase in size and through differentiation, thus stimulating strategic opportunism. The association will be oriented towards a stable size and no differentiation. An increase in size and especially a change of differentiation threatens the existing power distribution between different interest groups within the association. If there will be a change, it will tend to be an enlargement of present operations since it does not create new interest groups that will compete for resources. Thus, the strategy of steady state preferred by members in an association will restrain strategic opportunism.

The influence of the strategy upon corporate entrepreneurship can be summarised in the following propositions:

The strategy of growth or differentiation in a company will stimulate strategic opportunism.

The strategy of steady state in an association will restrain strategic opportunism.

The strategy, irrespective of governance structure, will have no discriminate influence on risk behaviour.

Organisation structure

Simplifying the universe of organisational forms, using the two most frequent forms of organisational structures, we highlight the functional and the multidivisional form. Firms organised according to functional units will have a rather high-risk behaviour and a restraining influence on strategic opportunism. It has been showed that single business firms, typically organised in a functional form, have a rather high level of risk, thus fostering the attitude assuming risk. At the same time, a functional firm has a hardship in changing strategy since the whole structure is focused on a single business. Thus, strategic opportunism is restrained in a functionally organised firm.

A company or an association structured in a multidivisional form with functional independent divisions will create a higher level of risk behaviour and strategic opportunism. Managers at the headquarters in the multidivisional form are exposed to the risk of the whole firm, which is presumably lower than the risk of a single division. Therefor they can tolerate higher risk in a single division. Strategic opportunism is easier in a multidivisional firm, since adding a new operation is a simple task because the divisions are functionally independent. In fact, it has been claimed that the dynamic capitalism of the 80's are due to the multidivisional forms capacity to contain divisions with differing strategies (Williamson, 1985).

There is a difference, however, between the company and the association even though they both are structured in a multidivisional form, and that is the difference of governance. Within the company the principal is separated from the divisions and makes decisions independently of the divisions. If one division has an idea that the principal accepts, it will most likely be a new project. That is, the companies principal will be willing to assume risk if the activities correspond to the ambitions of the principal. Thus, the company organised in a M-form will stimulate strategic opportunism and risk. This will not be the case in the association since the members in the divisionalised operations are not separated from the principals major power base, the board of directors. Since the members populate the board, they will consider every new project in the light of their own division, thereby putting restriction on new ventures. Thus, associations organised according to the multidivisional structure will restrain risk behaviour and have an intermittent strategic opportunism.

The influence of the mechanism of organisational structure upon corporate entrepreneurship can be summarised in the following propositions:

The organisational structure of a company will stimulate risk behaviour and restrain strategic opportunism if functionally organised, and stimulate risk behaviour and strategic opportunism if organised in a multidivisional form.

The organisational structure of an association will stimulate risk behaviour and restrain strategic opportunism if functionally organised, and restrain risk behaviour and induce intermittent strategic opportunism if organised in a multidivisional form.

Board of directors

Boards are hypothesised to have three functions, service, control and strategic decision making (Zahra & Pearce, 1989). We add a fourth function, that of conflict resolution. In Latin countries, but especially in Germanic countries, such as Germany, Sweden and Japan, different stakeholders populate the board and solve conflicts between them (de Jong, 1991). If a company board have a dominating orientation in its function, we assume that the dominating function of a company board will be service (Gabrielsson, 2002). The main reason is that the board is dependent on the owners will of service, as in most capitalistic countries, or on the top management will, as in UK and US firms. Strategic direction and entrepreneurship is considered to be contained in top management lines or among the owners. The board of directors is supposed to help and support the will of the major principal. The composition of the board will reflect this orientation, being composed of people from the owner's or top management network of friends, differing only in special competence needed in order to fulfil the service function. This selection increases the board's knowledge of the firm and eases the communicative problems in the board. On the other hand, creative impulses are seldom generated in stable teams, but in unstable ones, where the team members are very diverse in education and experience (Pelled, 1996). Thus, we claim that the board of directors will restrain strategic opportunism.

The composition of an association's board of directors is often through election among the members of the association. It cannot be ruled out that an association's board has an important service function to fulfil. It is more likely, however, that the board is populated by members that represent different interest groups, or if the association has created different sections or divisions, representatives for these sections. With these interest groups present, the dominating function will be that of conflict resolution. The engagement of the board in CE will only come as a consequence of specific conflict struggles. Due to diversity among the association's members, the board will, however, be populated by rather diverse persons. As with all groups characterised by heterogeneity, the conflict level is high (Kosnik, 1990; Sutcliffe, 1994), the turnover is high (Wagner et al., 1984), but so is the level of innovation (Bantel and Jackson, 1989; cf. Watson, Kumar and Michaelsen, 1993) and strategic change (Keck and Tushman, 1988; Wiersema and Bantel, 1992). Therefore we expect to find outburst

of CE, especially intermittent strategic opportunism among associations induced by their board of directors.

The influence of the mechanism of board of directors upon corporate entrepreneurship can be summarised in the following propositions:

The board of directors of a company will restrain strategic opportunism.

The board of directors of an association will induce intermittent strategic opportunism.

Irrespective of the governance structure of the corporation, the board of directors will have no discriminate influence on risk behaviour.

Auditing

The legal regulation of the auditing process could differ between companies and associations, and due to size and registration contracts on different stock markets. There is, however, no reason to expect any difference in the influence on CE by the auditing process. Auditing is oriented towards creating trust in the information from the corporation and detecting certain illegal actions. Without auditing, the management could engage in business that would not be possible to conduct with a well working auditing process. Thus, it could be claimed that auditing reduce the level of risk taken and the strategic opportunism through disciplining managers to legal and appropriate actions.

The influence of the mechanism of auditing upon corporate entrepreneurship can be summarised in the following propositions:

Irrespective of the governance structure of the corporation, auditing will restrain risk behaviour and strategic opportunism.

Product market

Companies innovate in anticipation of, or response to, their external environments, e.g. dynamism, hostility and heterogeneity (Zahra, 1991, 1993b). The product market can induce a firm to innovativeness, through being dynamic, with frequent changes in products or tastes of the consumers (Lumpkin & Dess, 1996). A firm faced with unfavourable environmental conditions might differentiate its products through intensive marketing and advertising activities in order to sustain customer loyalty or increase penetrations of existing segments. A firm with an increased diversity of customer needs and expectations is faced with the opportunities for additional innovation and market development. One has to notice, though, that the conception of an environment is partly subjective, influenced by the risk preference of the firm. It can be assumed that a company, with its emphasis on profit-maximisation, is more

alert on signals and signs in the environment and will therefore describe it as more hostile than the less alert public association. Since a more hostile environment is claimed to stimulate the innovative part of strategic opportunism, companies will be stimulated to risk behaviour and strategic opportunism when facing a hostile product market. An association, having a smaller window of CE, will not be stimulated in risk behaviour, but will have an intermittent strategic opportunism.

The influence of the mechanism of the product market upon corporate entrepreneurship can be summarised in the following propositions:

A hostile product market of a company will stimulate risk behaviour and strategic opportunism.

A hostile product market of an association will have no influence on risk behaviour, but an induce an intermittent strategic opportunism.

State legislation/regulation

State legislation and regulation mainly influence the governance structure through decreasing the governance efforts made by the stakeholders (Demsetz & Lehn, 1985). It can be expected that the association is comfortable in a regulated environment, thus state regulation restrains both the risk behaviour and strategic opportunism. A company could also be comfortable in a regulated environment, as long as action to avoid state regulations through strategic opportunism does not appear to be more profitable. Thus, we expect companies facing extensive state regulations to be induced to low risk behaviour and strategic opportunism.

The influence of the mechanism of state legislation and regulation upon corporate entrepreneurship can be summarised in the following propositions:

Irrespective of the governance structure of the corporation, state legislation and regulation will mainly restrain risk behaviour and strategic opportunism.

Mass media

Mass media influence the social legitimacy of a firm through discerning socially less approvable actions in or by a firm. It resembles the influenced exercised by the auditors, i.e., reducing the level of risk behaviour and strategic opportunism to the levels considered socially legitimate. There could, however, be a difference since certain sets of associations in many countries are treated as governmental associations, with very high demands of transparency such as full publicity of accounts and policies. These associations tend to receive subsidies from the state, which will make them even more restricted in strategic

opportunism since the demand on social legitimacy, as interpreted by mass media, will be very high.

The influence of the mechanism of mass media upon corporate entrepreneurship can be summarised in the following propositions:

Irrespective of the governance structure of the corporation, mass media will restrain risk behaviour and strategic opportunism.

CONCLUSIONS

Corporate governance influences the firm, and thus its capacity to create performance and stakeholder satisfaction. Through the exploration of the relationship between CG and CE in corporations, we found that there is no simple relationship between CG and CE. There are no reasons to expect that companies generally speaking have a more intense CE due to its stronger individual incentive system through transferable titles to collective property rights. At the same time, there are no reasons to expect that the public associations have any prominent advantage considering CE because they have an internalised market through their members.

Inspecting the set of propositions, summarised in table 2, our model of corporate governance influencing corporate entrepreneurship shows that corporate governance mechanisms tend to restrain more than enable risk behaviour and strategic opportunism. Some mechanisms, such as auditing, state legislation and regulations and mass media, have a consistent restraining influence on CE. This is hardly surprising, given the biased emphasis the subject of corporate governance has on disciplining action.

It has to be noticed, however, that table 2 reveal that the capital structure, the organisational structure, especially the M-form, and hostile market conditions have a tendency to stimulate risk behaviour and strategic opportunism. This is an indication of corporate governance mechanisms enabling action through influencing corporate entrepreneurship. Thus, we have showed that some mechanisms of corporate governance have a tendency to enable action.

We asserted, and we have showed through our theoretical analysis, that corporate governance has a discriminate influence on corporate governance. The biased emphasis on disciplining action in corporate governance have therefor to be abandon in favour of a more complex view on corporate governance, that of disciplining and enabling action.

We claimed that an empirical extension have to be made in corporate governance, including both companies and associations. The distinction of the two types of governance

structures was made, based on the corporation's goal, property rights, principal and stakeholders. Table 2 shows the difference between the two corporate governance structures capacity to stimulate and to restrain CE. It indicates that the company has more enabling mechanisms than the association. The important difference is, however, that the company appears to function in a more stable way, lacking any intermittent strategic opportunism. We have mainly argued that the intermittent strategic opportunism has its origin in the unstable goal structure of the association. The implication is that the company could be expected to have a more predictable behaviour than the association. Maybe this feature of the company partly explains the theoretical and empirical obsession of the company. Predictions, and thus explanatory studies, are easier to conduct and can create more studies with significant tests than studies of associations. Nevertheless, the diversity found between the company and the association, motivates a broadening scope of corporate governance studies. It has to be performed since it can enrich the theory of corporate governance and hopefully have a praxis impact as well. Indeed, there are no theoretical or practical reasons to be obsessed by the company or to neglect the association. Both are firms, using production factors in a transformation process, in order to create an output, and thereby satisfy dominating stakeholders.

One conclusion that cannot be made is that companies and associations have a tendency to restrain entrepreneurship because the number of propositions indicating restraints outnumber the propositions that indicate stimulation of CE. The propositions cannot be summed together since the different mechanisms differ in their capacity to influence the firm and its behaviour. The influence of the capital structure is more intense and powerful than the influence of the auditors. Thus, weights have to be given to each mechanism. These weights could be hypothesised to vary because of different institutional milieus, where, for example, corporations in transitional economies will tend to have lower weights on state legislation and regulation due to the institutional instability of the transitional economies. The model has thereby the capacity to pay due attention to institutional difference.

The suggested marriage of CG and CE cannot be sealed until the propositions have been evaluated in a set of case studies or tested on a sample. On this exploratory level of development, the objective has to be the refinement of hypotheses and the development of operationalisation of the concepts. Thus, the proper road to continue is to conduct case studies, them being able to develop conceptions and to evaluate operationalisations.

A model of corporate governance influencing corporate entrepreneurship could be very important for praxis. Imagine a medium sized corporation, owned by a few owners that put an

emphasis in retaining the control of the operations of the corporation. They need probably less of corporate entrepreneurship. Inspecting table 2, and assuming that the propositions cannot be falsified, the owners would focus on the board of directors and try to redirect the strategic focus to less hostile product markets. A chairman of the board in an association that would like to increase the level of CE would organise the corporation in divisions or section and consider a change of the top manager. Thus, a less rudimentary model, that have been thoroughly empirically tested, would make it possible to manipulate the corporate governance mechanisms in order to create the demanded level of corporate entrepreneurship.

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