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## Effect of Strategic Management Dimensions on Corporate Entrepreneurship Intensity at SMEs of Tempe Chips in Malang

Sumiati and Nur Khusniyah Indrawati

*Economic and Business Faculty, Brawijaya University, 65144, Malang-Indonesia*

**Abstract:** This study aim is to examine the relationship between strategic management practice consisting of scanning intensity, planning flexibility, planning horizon, locus of planning, and control attributes (strategic and financial) and corporate entrepreneurship intensity. Research was conducted on Small and Medium Enterprises (SMEs) of tempe chips in Malang. Data is analyzed by multiple linear regressions. Research results shows that from four dimensions of strategic management, only planning flexibility has significant effect on corporate entrepreneurship intensity. The other three dimensions are the scanning intensity, planning horizon, and locus of planning have no significant effect on corporate entrepreneurship intensity. The results also show that strategic control and financial control also have no significant effect on corporate entrepreneurship intensity.

**Keywords:** Scanning intensity, planning flexibility, planning horizon, locus of planning, corporate entrepreneurship

### I. INTRODUCTION

Entrepreneurial is seen as an organizational process to contribute to firm's survival and its performance (Covin and Slevin, 1989; Drucker, 1985; Lumpkin and Dess, 1996; Miller, 1983; Zahra, 1993). Entrepreneurial attitudes and behaviors are required in firm in order prosper and thrive in a competitive environment. Much of literature helps firms to understand organizational processes to facilitate entrepreneurial behavior (Covin and Slevin, 1991a; Guth and Ginsberg, 1990; Miller, 1983; Sathe, 1988; Zahra, 1991). This entrepreneurial behavior does not differ for firm scale (small or large). Management practices believe that entrepreneurial behavior is needed to facilitate the practice of strategic management (Covin and Slevin, 1991a; Miller, 1983; Murray, 1984; Zahra, 1991).

New corporate entrepreneurship grow every day in the world. Unfortunately, not every country provides an easy way to start a new firm (Khan, 1999). Key success elements of corporate entrepreneurship are the

basic idea of a business that previously has not demonstrated success still try to continue, creating a new firm through a lot of trial and error, and perseverance to work hard continuously (The founding of Funzone, 2004). Corporate entrepreneurship actually can be regarded as a philosophy of spirit and tremendous effort to develop, or at least to maintain existing business in associated with changes, rapid changes in business environment, ability to introduce new strategies and practices needed, if the firm wants to achieve superior performance over a period of time.

Many studies investigate not only individual entrepreneurial but also refer to how entrepreneurial aspect was emphasized in firm. Therefore, this study results has become conceptualization of entrepreneurial as a phenomenon at enterprise level (Burgelman, 1983; Covin and Slevin, 1988, 1991a; Miller, 1983; Zahra, 1991, 1993). The main assumptions underlying the corporate entrepreneurship notion is the phenomenon of all firms behavior located along a conceptual continuum ranging from very conservative to very entrepreneurial

To develop a more comprehensive view on how the strategic management practices affect on intensity of entrepreneurial behavior, the purpose of this research are below.

1. To know and analyze the effect of scanning intensity on corporate entrepreneurship intensity.
2. To know and analyze the effect of planning flexibility on corporate entrepreneurship intensity.
3. To identify and analyze the effect of planning horizon length on corporate entrepreneurship intensity.
4. To know and analyze the effect of locus of planning to corporate entrepreneurship intensity.
5. To know and analyze the effect of strategic control on corporate entrepreneurship intensity.
6. To know and analyze effect of financial control on corporate entrepreneurship intensity.

## **II. LITERATURE REVIEW AND HYPOTHESIS**

### **2.1. Relationship between Scanning intensity and Corporate Entrepreneurship**

Environment scanning refers to how the managerial activities learn about events and trends in organizational environment (Hambrick, 1981). Philosophical roots of scanning concept were begun in ancient Greece who believes that success in battle depends on intelligence to make tactical and strategic decisions (Box, 1991). Scanning gives managers information about events and trends in relevant environment to facilitate the opportunity recognition (Bleeder *et al.*, 1994). Therefore, intensity of scanning helps organizations to enhance the spirit and tremendous effort to develop the business. Therefore, research hypothesis is stated below.

- H1: More frequent scanning intensity activity will increase the corporate entrepreneurship intensity, and vice versa.

### **2.2. Relationship between Planning Flexibility and Corporate Entrepreneurship**

Flexibility refers to capacity of firm's strategic plan to transform the opportunities/threats from environment. Plan flexibility was proposed first time by Kukalis (1989) to investigate how the environment and characteristics firm affects on system design of strategic plans. Kukalis theory states that firm in a complex

environment can maximize the performance by adopting the 'flexible' planning system. Flexible planning system allows firms to adjust their strategic plans quickly to pursue the opportunity and follow the environmental changes (Stevenson and Jarrillo-mossi, 1986). Kukulis theory states that firm in a very complex environment require a flexible planning system because of frequency of changes in their business environment. Therefore, research hypothesis is stated below.

H2: More difficult the activity of planning flexibility will increase the corporate entrepreneurship intensity, and vice versa

### **2.3. Relationship between Planning Horizon and Corporate Entrepreneurship**

A firm planning horizon refers to length of future period for decision makers to consider planning (Das, 1987). For most firms, this period is related to length of time needed to implement routine firm strategy (Camillus, 1982). According to Rhyne (1985), planning horizon for individual firms can vary from less than one year to more than fifteen years. The reasons are a planning horizon must long enough to allow the plan can changes in strategy. The plan should short but enough to show a detailed (Das, 1991). Obviously, within this broad framework, firm will have a portfolio planning horizon to manage both short-term and long term strategies simultaneously (Capon, Farley, and Hulbert, 1987; Judge and Spitzfaden, 1995). This will be reflected in corporate entrepreneurship as basic philosophy to manage the firm, especially to achieve success in implementing its strategies. Therefore, research hypothesis is stated below.

H3: Shorter the planning horizon will increase the corporate entrepreneurship intensity, and vice versa.

### **2.4. Relationship between Locus of Planning and Corporate Entrepreneurship**

Locus of planning term refers to employee involvement level in firm's strategic planning activities. Organization can be characterized as having shallow or deep the locus of planning. Deep locus of planning can show high employee involvement in planning process, involving employees in almost all levels of corporate hierarchy. In contrast, superficial locus of planning shows the planning process that usually involves top managers of a firm.

Locus of planning is similar to Japanese planning style, team-oriented and emphasis on employee participation (Reid, 1989). Although the Japanese planning style is rooted in Japanese culture, it has become a model for American firms that have tried to make them have more participatory planning system. Deep locus of planning facilitates a high level of corporate entrepreneurship intensity. Therefore, research hypothesis is stated below.

H4: Deeper locus of planning increase the corporate entrepreneurship intensity, and vice versa

### **2.5. Relationship between Financial Control and Corporate Entrepreneurship**

The purpose of control system is to ensure that business strategy meets the goals and objectives set (Lorange, Morton, and Ghoshal, 1986). In this study context, control system of corporate entrepreneurship should stimulate innovation, proactive and risk taking. Two control types that particularly relevant to discuss of corporate entrepreneurship is strategic and financial control (Hitt, Hoskisson, and Ireland, 1990).

The two control types are present in most firms (Hoskisson and Hitt, 1988). Basic financial controls are financial performance objective criteria such as net income, return on equity, and return on sales (Hitt *et al.*, 1990). Financial control is congruent with a specific competence in most conservative firm. Financial controls are clear and unambiguous, which introduced the parties involved to agree on objective performance standards before any performance evaluation. Therefore, research hypothesis is stated below.

H5: Higher emphasis level on strategic control increases the corporate entrepreneurship intensity, and vice versa.

## **2.6. Relationship between Strategic Control and Corporate Entrepreneurship**

Strategic control is strategic performance and relevant as opposition of financial information goal (Gupta, 1987; Hoskisson and Hitt, 1988). Examples of strategic control criteria included customer satisfaction, new patent registrations, success in meeting the deadline for introduction of new products or processes, and achievement of quality control standards. The emphasis on strategic controls is consistent with entrepreneurial process. Strategic control is able to satisfy the creativity and pursue opportunities through innovation. Therefore, research hypothesis is stated below.

H6: Lower emphasis on financial control increase corporate entrepreneurship intensity, and vice versa.

## **III. RESEARCH METHODS**

This study uses a quantitative approach and explanatory research type to test the hypothesis. The sample was SMEs of tempe chips in Malang. Data types are primary and secondary. Data is collected by questionnaires as research instruments to explore the primary data. Secondary data sources are used to obtain secondary data.

These study variables are endogenous and exogenous variables. Endogenous variable is corporate entrepreneurship intensity (Y). Exogenous variables are Scanning intensity (X1), Planning flexibility (X2), Planning horizons (X3), Locus of planning (X4), strategic control (X5), and financial control (X6). Data validity test consists of reliability tests with Cranach's coefficient alpha at 5% confidence level. It is tested by method of (1) discriminant validity, and (2) convergent validity. Hypotheses are tested by multiple linear regressions.

## **IV. RESEARCH RESULT**

Multiple regression and descriptive analysis results prove that SMEs of tempe chips tend to be characterized as a conservative firm that usually located in a competitive industry and stable environment. When scanning intensity has equivalent relationship with corporate entrepreneurship intensity, this research result indicates that SMEs of tempe chips are conservative firms. This is consistent with descriptive analysis that scanning tends to be less important. Consistent with theory, scanning becomes less important for conservative firm, although it has produced many kinds of new products related with tempe chips and assumed that changes in creation of various new products deemed as dramatic. These results are consistent with theory of Zahara (1991) that corporate entrepreneurship means entrepreneurial activity within organization. It can also generate or create a new firm within organization through the creation of product and innovation process, as well as market development.

Scanning intensity refers to managerial activities to learn about events and trends in organizational environment (Hambrick, 1981). These results are not significant, so it does not fit with theory that scanning gives manager information about events and trends in relevant environment to facilitate the opportunity recognition (Bluedorn *et al.*, 1994). This study results are also inconsistent with Miller (1983), Covin and Selvin (1991b), Zahra (1993), and Barringer and Bluedorn (1999) that intensity of scanning has important correlation with corporate entrepreneurship behavior.

Planning flexibility refers to capacity of firm's strategic plan to transform the opportunities/threats from environment. This study result is not consistent with theory that planning flexibility has a positive effect on corporate entrepreneurship intensity. But the effect of planning flexibility to corporate entrepreneurship intensity is negative. Nevertheless, this study results consistent with conditions at SMEs of tempe chips in associated with planning flexibility. Descriptive analysis shows that tempe chips manufacturing firms rather difficult to find the change of strategic/long term planning in order to adjust any changes occurred in emergence of new technologies, shifting economic conditions, entry of (more) new competitors, changes in government regulations, shifts in customer choice and, modifications in supplier strategies, emergence of opportunities that are not predictable, unpredicted threats emerge, and political developments affecting the tempe chips industry. Employers of SMEs of tempe chips feel not too difficult to modify the planning in associated with supplier's strategies and emergence of unpredictable opportunities.

Firms planning horizon refers to length of time period necessary for decision makers to consider plan, which includes short-term, medium term and long term planning. For most firms, this period is related to length of time needed to implement routine firm strategy (Camillus, 1982). These results indicate that planning horizon has no effect on corporate entrepreneurship intensity. It is consistent with research results of Barringer and Bluedorn (1999). Descriptive analysis shows that both main managers and operational managers find it very appropriate to consider the plan at three years intervals and even more than five years. Descriptive analysis is consistent with theory that planning horizon for individual firms can vary between less than one year or more than fifteen years. However, less than one year planning horizon is considered optimal for that corporate entrepreneurship like the firm has taken into account the dynamics of rapid environment change.

Locus of planning relates depths employee involvement in firm's strategic planning activities. Research result shows that locus of planning does not affect on corporate entrepreneurship intensity. In addition, relationship between the locus of planning and corporate entrepreneurship intensity is negative. This study results are not consistent with previous studies of Burgelman (1984); Sathe's (1988), and Barringer and Bluedorn (1999) that there is a positive relationship between the locus of planning and corporate entrepreneurship intensity.

The control system of corporate entrepreneurship must stimulate innovation, proactive, and risk taking. This is because the corporate entrepreneurship more emphasis on efforts to produce products through innovation and technology in producing high-risk products and high change of the results, and dare to work in order to maximize opportunities in exploiting the capabilities as a business in conditions not definitely. The control system in this research is strategic control and financial control. This study found a positive correlation between strategic control and corporate entrepreneurship intensity. These results are consistent with research and Bluedorn Barringer (1999), this relationship is also consistent with theory as stated Sathe (1988). However, positive correlation between strategic control and corporate

entrepreneurship intensity is not significant. In a sense, strategic control has no effect on corporate entrepreneurship intensity.

Financial control opposes the strategic control. Strategic control focuses on customer satisfaction, new patent registrations, success to meet the deadline for introduction of new products or processes, and achievement of quality control standards, financial controls entrepreneurial process. Strategic control is able to satisfy the creativity and pursue opportunities through innovation. While financial controls focus on agreement on objective performance standards in financial sector to assess the financial performance. Research results showed that there was a negative relationship and insignificant effect of financial control on the corporate entrepreneurship intensity. Therefore, existing control systems on SMEs of tempe chips no longer insists on function of control system that should be able to give attribute to creativity and pursuit of opportunities that exist to generate innovation. It is not a thing else that is important part of process of corporate entrepreneurship. This is probably due to tempe chips industry and generally small-scale enterprises not yet at level of strategy innovation strategy but still at level of impersonation. This is supported by shape and taste of tempe chips product that almost the same for most employers SMEs of tempe chips and tempe chips do not produce spectacular results of creativity and innovation despite the descriptive analysis show that financial performance is considered important in evaluating the overall performance of firm.

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