

Corporate Entrepreneurship and Corporate Performance

ISSN 2321 – 371X
 Commerce Spectrum 4(2) 33-37
 © The Authors 2017
 Reprints and Permissions
 santhasaraswathy4@gmail.com
 www.commercespectrum.com

Berly Sebastian¹

Asst. Professor, K.G. College, Pambady E –mail: berlycs21@gmail.com

Abstract

Corporate entrepreneurship is a process that can facilitate company's efforts to innovate constantly and cope effectively with the competitive realities that companies encounter when competing in international markets. It can be measured using variables like innovativeness, corporate venturing, technology partnerships, expansion etc. there is a relation between corporate entrepreneurship and corporate performance. The present study has been undertaken to examine whether the performance of entrepreneurial companies are more than non-entrepreneurial companies. The study is mainly based on secondary data. For the purpose of the study, Corporate entrepreneurship of the selected ten companies is measured using the entrepreneurial variables. Entrepreneurial activities of last five years are counted and average is found out. The companies whose number of activities above the average are treated as predominantly entrepreneurial companies and the companies whose variables below the average are treated as predominantly non-entrepreneurial companies. The study revealed that the entrepreneurial characteristic of the companies does not affect the corporate performance.

Key words

Corporate entrepreneurship, Corporate Performance.

Introduction¹

Corporate entrepreneurship is a process that can facilitate company's efforts to innovate constantly and cope effectively with the competitive realities that companies encounter when competing in international markets. It includes strategic renewal, innovation, and corporate venturing. For a business to be called corporate entrepreneurship, it should go for innovation, corporate venturing, expansion, diversification, and acquisition. The measurement of corporate entrepreneurship enables management to assess the culture and readiness of the organization to participate in corporate entrepreneurial activities. (Hornsby et al.,2008)¹. The eight items measuring the corporate entrepreneurship are used for the present study

Innovativeness indicates product and service innovation with emphasis on development and innovation technology. It includes new product development, product improvements and new production methods and procedures.

- *Corporate venturing* refers to new business creation within an existing organisation by

redefining the company's products or services or by developing new markets. Joint ventures are undertaken with other organizations to share the expense and profit of a particular business project.

- *Technology partnerships* involve partnering with another company providing engineering manufacturing or product development services to create a specialized new product.
- *Diversification* is the process of entering new business markets with new products.
- *Expansion* entails opening up new stores in different physical locations while still maintaining the current business locations.
- *Acquisition* is the process of acquiring a company to build on strengths or weaknesses of the acquiring company.
- *Merger* is the combination of one or more corporations into a single business entity to achieve greater efficiencies of scale and productivity.

Statement of the Problem

Aktan & Bulut (2008)² states that the four sub dimensions of corporate entrepreneurship, viz., proactiveness, risk taking, innovativeness and

¹Corresponding author:

Berly Sebastian, Asst. Professor, K.G. College, Pambady E –mail: berlycs21@gmail.com

competitive aggressiveness have positive and significant effects on financial performance. The entrepreneurial companies have more tolerance for high risk projects. They introduce new products, technologies, administrative techniques than merely react. They have a strong tendency to increase the market share by reducing the competitors. They invest in developing proprietary technologies. Because of these reasons entrepreneurial companies will be performing more than nonentrepreneurial companies.

Objective of the study

The objective of the present study is to examine whether the performance of entrepreneurial companies are more than non-entrepreneurial companies.

Hypothesis of the study

1. There is a positive relation between corporate entrepreneurship and corporate performance.

Research Methodology

The study is mainly based on secondary data. For the purpose of the study, ten companies are selected. Entrepreneurial variables are identified from various studies. Lumpkin & Dess (1996)³ identified five dimensions of entrepreneurial orientation, viz., competitive aggressiveness, innovativeness, proactiveness, risk taking and autonomy. Corporate entrepreneurship of the selected ten companies is measured using the entrepreneurial variables. Entrepreneurial activities of last five years are counted and average is found out. The companies whose number of activities above the average are treated as predominantly entrepreneurial companies and the companies whose variables below the average are treated as predominantly non-entrepreneurial companies.

For measuring corporate performance, three variables have been used, viz., Return on Investment (ROI), Price Earnings Ratio (PE Ratio) and Tobin's Q.

ROI is used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. It is a profitability measure that evaluates the performance of a business. ROI measures the amount of return on an investment relative to the investment's cost. P/E ratio is a ratio for valuing a company that measures its current share price relative to its per-share earnings. The Tobin's Q ratio is a measure of firm assets in relation to a firm's market value. ROI is a traditional accounting measure which reflects a firm's past performance. Market based measures derived from stock market values, viz., P/E Ratio and Tobin's Q are used to know a firm's future performance.

Corporate performance of financial year 2014-15 was used for the study. T test is done to check the correctness.

Analysis Measurement of Corporate Entrepreneurship using variables

The corporate entrepreneurship is measured by considering how many entrepreneurial activities a given company has undertaken during the last five years. The entrepreneurial activities of the selected companies are presented in Table 1. The table shows that all the selected companies have taken up some entrepreneurial activities during the last five years. But some companies have resorted to many such actions whereas some companies have taken up only few such activities.

Table 1: Entrepreneurial Activities of the Selected Companies

Companies										
CE Variables	ACC	Bharti Airtel	Grasim	Infosys	ITC	L & T	M & M	Reliance	TCS	Tata Steel
Innovativeness	1	1		1					2	1
Corporate venturing		3		2		2	1	5	2	2
Technology partnerships	1	2		3		3		4	1	
Diversification					2					
Expansion	1	1	1		1	3	1		1	1
Acquisition				3	1	1				
Mergers										1
Total	3	7	1	9	4	9	2	9	6	5

Source: Compiled from secondary data.

Summary of Entrepreneurial activities

The summary of entrepreneurial activities of the selected companies is presented in Table 2.

Table 2: Summary of Entrepreneurial Activities

Name of Company	No. Of Entrepreneurial activities
ACC	3
Bharti Airtel	7
Grasim Industries	1
Infosys Ltd	9
ITC Ltd	4
Larsen & Toubro	9
Mahindra & Mahindra	2
Reliance Industries Ltd	9
TCS	6
Tata Steel Ltd	5
Total	55
Average	5.5

Source: Compiled from secondary data.

The table above shows that all the 10 companies together have undertaken 55 entrepreneurial activities, the average being 5.5 activities per company. Infosys, Larsen and Toubro and Reliance have the highest number of activities whereas Grasim and Mahindra come in the lower area. Those companies which have undertaken more than the average number are treated as predominantly entrepreneurial companies and those with less than the average number of activities are

considered as predominantly non-entrepreneurial companies. **Classification of companies on the basis of Corporate Entrepreneurship**

The selected companies are classified into two groups, namely predominantly entrepreneurial companies and predominantly non-entrepreneurial companies. The classification of companies is shown in Table 3.

Table 3: Classification of Companies on the Basis of Perceived Entrepreneurship

Predominantly Entrepreneurial Companies	Predominantly Non-Entrepreneurial Companies
Infosys Ltd	ITC Ltd
Larsen & Toubro	ACC
Reliance Industries Ltd	Mahindra & Mahindra
Bharti Airtel	Grasim Industries
TCS	Tata Steel Ltd

Measurement of Corporate Performance

The corporate performance is measured by three variables, viz. ROI, PE Ratio and Tobin's Q.

Return on Investment as a measure of Corporate performance

The ROI of the two sets of companies are presented in Table 4.

Table 4: ROI of Selected Companies

Predominantly Entrepreneurial Companies	ROI (%)	Predominantly Non-Entrepreneurial Companies	ROI (%)
Infosys Ltd.	34.95	ITC Ltd.	45.75
Larsen & Toubro	16.45	ACC	14.78
Reliance Industries Ltd.	10.43	Mahindra & Mahindra	20.05
Bharti Airtel	17.32	Grasim Industries	6.19
TCS	53.93	Tata Steel Ltd	11.29
Average ROI	26.62	Average ROI	19.61

Source: Compiled from secondary data.

$t = 0.664$, $sdev = 16.7$, $df = 8$, $p = 0.525$, H_0 accepted.

The above table shows that the average ROI of the predominantly entrepreneurial companies is higher than that of the predominantly less entrepreneurial companies. However, the difference is not statistically significant as per the t test.

P/E Ratio as a measure of Corporate performance

The P/E Ratios of the two sets of companies are presented in Table 5.

Table 5: P/E Ratio of the Selected Companies

Predominantly Entrepreneurial Companies	P/E Ratio (times)	Predominantly Non-Entrepreneurial Companies	P/E Ratio (times)
Infosys Ltd.	10.47	ITC Ltd.	27.18
Larsen & Toubro	31.62	ACC	25.11
Reliance Industries Ltd.	11.77	Mahindra & Mahindra	22.21
Bharti Airtel	11.91	Grasim Industries	62.79
TCS	25.97	Tata Steel Ltd	4.78
Average P/E Ratio	18.348	Average P/E Ratio	28.414

Source: Compiled from secondary data.

$t = 0.966$, $sdev = 16.5$, $df = 8$, $p = 0.362$, H_0 accepted.

The above table shows that the average P/E Ratio of the predominantly entrepreneurial companies is lower than that of the predominantly less entrepreneurial companies. However, the difference is not statistically significant as per the t test.

Tobin's Q as a measure of Corporate performance

The Tobin's Q of the two sets of companies are presented in Table 6.

Table 6: Tobin's Q of Selected Companies

Predominantly Entrepreneurial Companies	Tobin's Q (ratio)	Predominantly Non-Entrepreneurial Companies	Tobin's Q (ratio)
Infosys Ltd.	2.65	ITC Ltd.	8.51
Larsen & Toubro	4.31	ACC	3.56
Reliance Industries Ltd.	1.24	Mahindra & Mahindra	3.83
Bharti Airtel	2.009	Grasim Industries	2.98
TCS	11.015	Tata Steel Ltd	0.46
Average Tobin's Q	4.25	Average Tobin's Q	3.87

Source: Compiled from secondary data.

$t = 0.171$, $sdev = 3.47$, $df = 8$, $p = 0.868$, H_0 accepted

The table shows that the average Tobin's Q of the predominantly entrepreneurial companies is higher than that of the predominantly less entrepreneurial companies. However, the difference is not statistically significant as per the t test.

Conclusion

The findings of the study lead to the conclusion that the entrepreneurial characteristic of the companies does not affect the corporate performance. However, the findings might be affected by the limitations of the study.

Limitations of the Study

- The entrepreneurial activities of companies are studied only on the basis of published data. Further verification on the accuracy of data is not done.
- Only five years data is used for the studying entrepreneurial activities, ie., from 2010 to 2015.
- Only one-year data is used for measuring corporate performance.
- The companies selected are heterogeneous. The general industrial factors also might have influenced the findings.

References:

- Hornsby, J.S., Holt D.T., Kuratko D.F. (2008). The dynamic nature of Corporate Entrepreneurship: Assessing the CEAI. *Academy of Management Proceedings*, 15, 1-6.
- Aktan, B., & Bulut, C.(2008). Financial Performance Impacts of Corporate Entrepreneurship in emerging markets: A Case of Turkey. *European Journal of Economics, Finance & Administrative Sciences* 12, 1450-2275.
- Lumpkin, G.T., Dess, G.G. (2001). Linking Two Dimensions of Entrepreneurial Orientation to Firm Performance: The Moderating Role of Environment and Industry Life Cycle. *Journal of Business Venturing*, 16, 429-451.
- www.business-standard.com
- www.economicstimes.indiatimes.com
- www.moneycontrol.com