

# Does Leadership and HRM Matter on Corporate Entrepreneurship?

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**Abstract** The study of leadership and human resource management (HRM) towards corporate entrepreneurship (CE) has received less attention from researchers in order to explain various organisational phenomena and issues. This paper reviews the literature by identifying the key perspectives for managers of manufacturing firms to further evaluate the effectiveness of corporate entrepreneurship, which is important to foster innovativeness of the firms and better sustainability in the competitive environment. Managers of various levels are able to concentrate and transform their effort into practices that becomes particularly salient with the increasing importance of human capital leading to a better organisational competitiveness in today's knowledge economy.

**Keywords** Leadership, HRM, Corporate Entrepreneurship, Malaysia

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## 1. Introduction

Corporate entrepreneurship (CE) has long been seen as a very interesting research field among scholars and managers[1]. Therefore, it is widely held that CE has generated considerable contribution and is an important driver of success. In addition, leadership and human resource management (HRM) practices are the main contributors to make a firm's ability to be proactive, innovative and able to accept risk.

Our approach focuses on the role of CE in cultivating and inducing business development that enables the managers in manufacturing firms to respond and adapt to changes in Malaysia context. Moreover, leaders through its influencing power develop entrepreneurship culture in firms contributes to the company's growth through innovations, competitive advantages, new concepts and effective strategies both in domestic and international operations.

The influence of leadership and HRM on CE has been overlooked to a considerable degree in past researches. This study is intended as a contribution to this under developed research stream. First of all, we plan to look into the relationship between leadership and CE, followed by leadership and HRM. Lastly, we will examine the link between HRM and CE. It is hope that, the study will provide the reader a clearer understanding of CE and thereby improve managerial decision making accordingly.

## 2. Literature Review

### 2.1. Corporate Entrepreneurship (CE)

The globalization phenomena in recent years lead to the more dynamic and challenging business environment. Firms tend to be more entrepreneurial and try to identify business opportunities arise and avoid threats from the external environment in order to gain sustainable growth and profits. The concept of CE has evolved from the research works on entrepreneurship, innovation and venturing activities of firms since decades ago. CE is often referred to as the creation and cultivation of an entrepreneurial culture within the organization in order to improve its innovative capacity[2]. CE has been conceptualized as a multi-dimensional construct which consists of three dimensions: innovation, new business venturing and strategic renewal activities[3].

Innovation is recognized as a process involves transformation of new ideas to value added products, services or organizational changes, and new business venturing is considered as the creation of a new business unit or acquisition of a new business[4]. Strategic renewal is termed as the major organizational change activities through renewal of the major ideas[3, p.5].

In a nut shell, CE is viewed as a foundation for organization learning, collaboration, creativity and individual commitment of employees. CE enhances firms' capability in strengthening the strategies, products, services, process and even the whole organization[5]. The higher level of management and technical capability will help firms to

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Published online at <http://journal.sapub.org/hrmr>

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gain sustainable competitive advantage against competitors and lead to better organizational performance.

## 2.2. Leadership and Corporate Entrepreneurship

Entrepreneurial leadership and entrepreneurial economy are the center of attention[6] lately because entrepreneurial oriented people are capable to sustain in challenging environment[7]. Researchers have been differentiating entrepreneurs and non-entrepreneur as well as those who are successful in business by psychological characteristics and personality factors. A truly entrepreneurial leader has the capability to influence others to embrace entrepreneurial spirit. Hence, businesses will be able to benefit from the creation of leadership in the organization[8]. Furthermore, theory of social learning conclude that leaders have the ability to influence the team members' behavior[9] creating the conditions necessary for CE; thus enabling the diffusion of entrepreneurial spirit throughout the organization.

Despite such relation, it is unclear on the influence of leadership towards CE. An individual is found to be lack of competence to perform the role of entrepreneur; especially in large organization due to the degree of complexity surrounding the business' activity. It is reasonable to propose firms to create a condition of leadership that cultivates entrepreneurial spirit in manufacturing firms, generating innovation performance for corporations. Like wise, research conducted on leadership style and entrepreneurial behavior confirmed relationship and participative leadership foster entrepreneurial spirit, whereas task-oriented leadership decreases diffusion of entrepreneurial spirit among members in firms[10]. Therefore, we would like to conduct this study to prove the relationship between leadership and CE by the following proposition:

**Proposition 1: Leadership has a significant positive impact towards CE in manufacturing firms.**

## 2.3. Leadership and HRM

Leadership is one of the most essential elements for improving firm's performance. Leaders are potent sources of managerial rents and hence sustained competitive advantage[11]. Enormous leadership theories have been developed through past researches which can be grouped into several perspectives: traits, behaviour, contingency and implicit theory. The contingency perspective, e.g. Least Preferred Co-worker Contingency Theory[12]; Path-goal Theory[13]; Leadership Substitute Theory[14] and Leader-member Exchange Theory[15] postulate that the association between leadership style and situational favourableness will enhance the effectiveness of leadership in organization. Conversely, HRM implies a concern with anything and everything that relate to the management of employer-employee relationship[16]. Thus, HRM plays an important role that supports managers in performing HR-related routine business activities[17].

However, there are very few contributions focused on the entrepreneurial leadership in effectively managing human

resources of its own organization. The practice of HRM particularly in formulating HR policies, strategies and procedure to attract and retain the best talent in organization is indeed shaped by senior management to guarantee business effectiveness[18]. It has been argued that the owner managers or entrepreneurs have enormous influence on enterprise growth, particularly in small businesses[19]. An effective leader is able to adapt leadership behaviour or style that meets employees' expectation effectively. Therefore, the association between the leadership styles and management of human resource became a critical contributor to business success. Referring to the past literatures, we can conclude that the identification of the specific mechanism between leadership and HRM practices should be considered as a central issue in this line of research. Hence, the formulated proposition is:

**Proposition 2: Leadership has a significant positive impact on HRM practices in manufacturing firms.**

## 2.4. Human Resource Management (HRM) and Corporate Entrepreneurship (CE)

HRM practices has been widely studied by researchers in recent years and found effective in driving various performance indicators in organizations[20]. The role of HRM is essential in shaping the organizational culture and enhancing morale of employees and teams. HRM practices such as training and development, performance appraisal, compensation, etc. are often tied to improving learning in organizations and enhancing motivation of employees. HRM practices are treasured of having high impact in adding the value of intellectual capital in firms.

The study on the relationship between HRM and innovation has been the prime focus among researchers. It was found that reward levels of executives and technical experts in high technology firms should be elevated in order to encourage innovation through compensating the high risks faced[21]. Other HRM practices have been investigated including team based practices, delegation and performance-based pay[20]. Some researchers have investigated HRM practices from a system perspective. Five key success factors of CE in the context of US and Canada have been tested and confirmed, including rewards, management support for innovation, resources availability, organizational structure refined for learning, and risk taking behaviour[22]. Subsequently, a study further supported the notion that HRM practices promote CE by examining HRM practices including selection, training, performance appraisal, compensation and career development practices[4].

Studies have been conducted in the western countries to measure the contribution of HRM practices in supporting teamwork by minimizing organizational boundaries, and encourage organizational commitment and informal contribution apart from formal task and responsibilities. However, the study of the effect of HRM practices on CE in the Malaysia context is yet to be carried out. We would like to fill the gap by conducting this study with the following proposition:

**Proposition 3: HRM practices have a significant positive impact on corporate entrepreneurship in manufacturing firms.**

### 3. Conceptual Framework

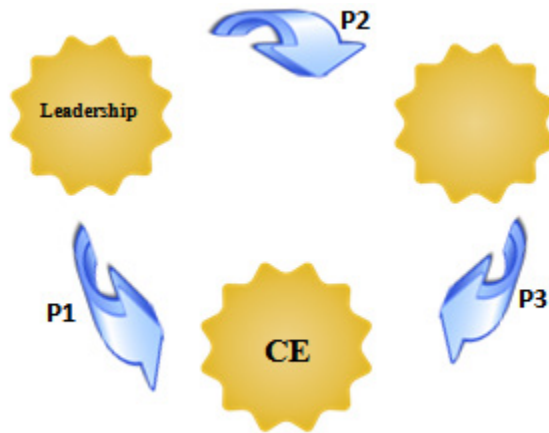


Figure 1. A Conceptual Framework

Based on few discussions in the literature review, a model incorporating Leadership, HRM and CE is developed to enhance manufacturing firms' innovative capacity through cultivation of entrepreneurial spirit within the organizations. Figure 1 illustrates the proposed relationship between Leadership, HRM and CE. According to this model, we suggest greater presence of Leadership and HRM will result greater CE in organizations.

### 4. Theoretical and Managerial Implications

The proposed model serves as a fundamental framework for researchers to understand the impact of Leadership and HRM towards corporate entrepreneurship. Besides, this paper proposes certain implications for manufacturing firms. First, it will be wise for firms to pay more attention on HRM practices because of its ability to transform manufacturing firms to be risk-takers and innovative. Secondly, efficient leadership will improve HRM practices which guarantee firm's success in strategizing itself to maintain certain innovative capabilities. Thirdly, firms will benefit by practicing leadership styles which enhance entrepreneurship spirit in firms. By incorporating effective leadership and HRM, the firms will fare better in competitive environment.

### 5. Conclusions

Corporate entrepreneurship (CE) is a key element in firms wishing to gain competitive advantage in the dynamic business environment. Previous studies have shown that CE enhances firms' capability in upgrading products, processes, services, strategies and even the whole organization[9]. The proposed framework identifies the relationship between

Leadership, HRM and CE. Past literatures show that appropriate deployment of Leadership and HRM is critical for improving CE. This suggested research model will be useful for future research endeavours.

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