

## Koutu, Khushboo (2012) Human Capital Prospective on Corporate Opportunity Identification. [Dissertation (University of Nottingham only)] (Unpublished)

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## **1)Abstract**

Entrepreneurial activities within firms have been a centre of attraction for researchers in past years. Human capital is yet another unexplored prospective affecting and contributing towards entrepreneurship. To understand how individual operate entrepreneurially within firm, we intend to explore how human capital is developed and how structure and practices in internal and external environment of the firm (in this case focusing on Samsung Electronics Corporation) affects human capital development, management and vice versa. In addition to examining the provided framework we also analyse human capital from innovation prospective. Therefore, the paper contributes towards existing literature in two ways: firstly, we exploring and expanding the current framework of corporate opportunity identification and human capital to incorporate innovation. Secondly we provide evidence to support current research through a case analysis and also provide factors to examine in further research.

## **2) Executive Summery**

The research attempts on understanding how human capital acts as a firm resource for opportunity identification and other entrepreneurial activities. The importance of knowledge and learning is highlighted in entrepreneurship and improving firm's performance. The paper analyses and evaluates: Firstly, how human capital acts as a trigger for corporate opportunity identification followed by a brief discussion on the types of human capital. Secondly, how and when various organizational structure and practices reflects on the relation between human capital and corporate opportunity identification. Thirdly, how Entrepreneurial orientation manipulates human capital with a firm. Furthermore, how and when organizational structures and processes can influence and contribute towards motivating individual towards learning and improving quality of learning. And lastly, analysing the influence of human resource management practices and system towards innovative contribution of individual in the organization.

Subsequently the case study of Samsung Electronics is provided along with detailed methodology highlighting method of data collection, case choice and background. The case study elaborates Samsung Electronics human capital management strategies, recruiting and training methods and organizational policies and practices. Afterwards, the theoretical concepts provided in the literature are then compared with the evidence provided in the case study in the analysis and discussion section to evaluate established propositions by the literature. The analysis and discussion section is followed by a conclusion of the paper, consequently providing limitation of current research and elements for further study.

### **3) Literature Review**

#### **3.1)Introduction:**

Past researchers have given a considerable thought to the factors which can affect the entrepreneurial performance of a firm. The components which have been given major importance were strategy, structure, firm's internal and external environment and organizational values before corporate entrepreneurship (hereafter CE) (Zahra et al., 1999; Phan et al., 2009). In current years concentration is shifting towards understanding effects of CE's activities and outcome on firm's performance rather than economic and strategic gain (Narayanan et al., 2009), which in past research were considered obsolete.

Due to different dimension of corporate level entrepreneurship like formal and informal corporate level entrepreneurship, venturing, strategic renewal (Sharma and Chrisman, 1999, Zahra et al., 1999), developing an understanding of what we refer to as CE is of grave importance. Rather than viewing CE with respect to all these factors about which a lot has been said already, we attempt to shed some light on human capital which is another dimension of CE, accordingly with Shane and Venkataraman (2000), Brown et al. (2001), Ireland et al. (2001) and Zahra (2008) theory we focus on defining CE as identification and exploitation of opportunities for new venture creation. Due to the conflict in the factors which affect opportunity creation and identification (Shook et al., 2003), we are focusing only on opportunity identification.

Entrepreneurial research circulates around opportunity identification. It revolves around the three basic questions of "Why, When and how opportunities arise for the creation of goods and services" (Venkataraman, 1997). So a person's ability to identify opportunity is considered as one of the major factors in entrepreneurship domain (Gaglio and Katz, 2001). Till now most of the research has studied opportunity with respect to alertness (Gaglio and Katz, 2001), creativity (Hills et al., 1998), risk (Mullins and Forlani, 2005), motivation (Kuratko et al., 1997) and financial reward (Shepherd and DeTienne, 2005). Only a few researchers have analysed relationship between opportunity and human capital (Davidsson and Honig, 2003; Dimov and Shepherd, 2005), knowledge and learning (Shane, 2000 and Dimov 2003). The latter set of research is more relevant to current study. Shane (2000) concluded that the knowledge gained by past experience (customer, internal and external market, problems and gaps) is relevant to the opportunity identification process. Dimov and Shepherd (2005) talked about the relevance of general human capital for exploiting opportunity, on the other hand, Davidsson and Honig (2003) demonstrated importance of specific human capital for opportunity

identification. We will try to analyse these factors relevant to current study further and fill the gaps whenever necessary.

Human capital is considered one of the important firm resources for value creation (Pfeffer, 1994; Hitt and Ireland, 2002) and with increasing stress on knowledge and learning within current economic prospective (Grant, 1996; Coff, 1997; Stewart, 1997; Nahapiet and Ghoshal, 1998), importance of human capital as a firm resource cannot be ignored. Knowledge is considered as strength of the firm which reside in various forms but in the end it is individual who possess this knowledge and must learn from it (Grant, 1996). Learning on the other hand, is influenced by knowledge and skills of people (Hatch and Dyer, 2004). Both the mentioned factors (knowledge and learning) individually and together leads to the formation of human capital of a firm. As knowledge and learning play an important part in entrepreneurship (Zahra et al., 1999; Shane, 2000) and both plays vital role in shaping human capital, the influence of human capital on CE activities and outcomes is unavoidable.

In accordance with Becker, 1975; Coleman, 1988; Dess et al., 2003 and Coff, 2005 human capital stand for knowledge, experience, skills of individual. This knowledge provide individual with greater awareness and increase the decision making capability leading to fruitful outcomes (Becker, 1975). Consistently with the resource based theory, human capital is considered as intangible resource for a firm which creates a competitive advantage as due to the associated complexity as they are difficult to mimic (Barney, 1991; Black and Boal, 1994; McEvily and Chakravarthy, 2002).

### **3.2) Human Capital as a Trigger of Corporate Opportunity Identification (Path 1):**

While talking about human capital and entrepreneurship, most of the researchers' associate human capital with organization issues (e.g., performance, strategy) rather than associating it with entrepreneurial behaviour like opportunity identification and exploitation. (Hughes and Ucbasaran, 2010).

Human capital theory for entrepreneurship indicates that opportunities existing in external environment are better recognized by individual with higher quality of human capital. Each individual possess some knowledge and skills (for example- awareness of current market scenario, technological changes, understanding of customer behaviour, past experience and creative thinking) required for firm's development. All the above knowledge and skills can help to identify and evaluate opportunities better and assist CE (Hostager et al., 1998). As mentioned earlier, even though human capital can be positively linked

with opportunity identification (Ucbasaran et al., 2008, 2009; Bhagavatula et al., 2010) in external environment to increase entrepreneurial behaviour of the firm, enough evidence are not available to support opportunity identification within the firm (Hughes and Ucbasaran, 2010).

Prior research provides two different views on opportunity identification. Theoretically it was assumed that opportunity exist in the environment, waiting to be discovered by individual (Alvarez and Barney, 2007; Zahra, 2008). This theory was further supported by principle of “alertness” given by Kirzner (1973) which conclude that entrepreneurs have the ability to notice profitable opportunity before they even exist. The other view, based on logical analysis suggests that opportunity are not in external environment, but they are created by individual based on information gained from past experience and understanding of current scenario (Schumpeter, 1934; Witt, 1998; Zahra, 2008). Even though both the views seem to derive different conclusion, they support current study. If opportunities are indeed circulating in the environment waiting to be discovered, individual with knowledge and skills will know better where to look for the opportunity. Thus a prior understanding of market will help to analyse the current situation, generate more ideas and behave entrepreneurially (Kaish and Gilad, 1991; Shane, 2000, Gaglio, 1997). Conversely if opportunity comes from creative mind, individual with higher level of human capital will be more imaginative and creative due to better understanding of problem space and domain specific knowledge which comes from prior experience (Amabile, 1990, Hughes and Ucbasaran, 2010).

As it is individual who identify and exploit opportunity based on the past knowledge and skills, it can be concluded that human capital is an important factor responsible for firm’s entrepreneurial behaviour.

### **3.2.1) Types of human capital:**

Human capital represents knowledge, skills, and capabilities of individual distinguished on the basis of whether the resource is tangible or intangible (Castanias and Helfat, 1991). If the knowledge or skills are easily transferable within a scenario (for example- education) they are considered general human capital (Gimeno et al., 1997). On the contrary if the skills and knowledge are not easily available and transferable they are regarded as specific human capital (Becker, 1993). Specific human capital refers to knowledge and skills for which availability is restricted within particular territory. Due to the intangible nature of some forms of knowledge and skill, they are considered more valuable over others resources as they are hard to imitate (Kang and Snell, 2009) and leads to opportunity identification (Shane, 2000).

Firm specific human capital is highly domain specific. It consists of knowledge which individual learn from various firm definitive operations. Knowledge here is developed by learning; the whole process forms a circle where knowledge in a firm is created by learning and later learning can enhance firm's knowledge and performance (Hatch and Dyer, 2004). Firm specific human capital encompasses of knowledge about firm's customer, internal structure, products, and services (Gimeno et al., 1997).

Apart from firm specific human capital, individual may also acquire entrepreneurship- specific human capital which comes from direct or indirect entrepreneurial experience (Krueger, 1993; Unger et al., In Press). It consists of skills and knowledge which individual possess to create and exploit opportunity (Coff, 2005).

Both entrepreneurship- specific and firm specific human capital are important for corporate entrepreneurship. Entrepreneurship-specific human capital will help to identify opportunity in the internal and external environment. On the other hand firm specific human capital will help to understand the feasibility of those opportunities. Even though both Entrepreneurship-specific and firm-specific human capital are important, a balance is required for growth and performance development of the firm. Entrepreneurship-specific human capital is important for opportunity identification but if firm-specific human capital is less than it would be hard for individual to realize the whether the firm has potential resources, skills and capabilities to handle opportunity (Hughes and Ucbasaran, 2010). On the other hand if entrepreneurship- specific human capital is low then it is very much possible that the people may not be creative or take risk for growth which will endanger further development of firm.

### **3.3) Organizational Structures and Processes as Moderatos of the Relationship between Human Capital and Corporate Opportunity Identification (Path 2):**

Till now we have talked about the fact which suggests that a higher human capital for the firm will facilitate better opportunity identification. Despite the facts provided, it is not always the case that firms with higher human capital have greater opportunity identification capability then firm with weak human capital. The reason behind this is the mismanagement of human resources in the internal environment of the firm (Wright et al., 2001), which might suppress the creative potential ,risk taking ability of employee and trap them in a non-innovative routine of regular work. As opportunity identification is a function of knowledge and skills, it is essential to manage existing knowledge and facilitate exchange and combination of information (Nahapiet



and Ghoshal, 1996; Zahra, Nielsen and Bogner, 1999). Prior research discusses the importance of human capital management and its association with organizational structure but the research lacks in providing an universally agreed upon measures to overcome the flaws in internal environment and increase creative potential of employee (Hughes and Ucbasaran, 2010). The reason behind this can be the assumption that due to different organizational structures no single practice can help to overcome the glitch in internal environment but a combination of these practices can.

Hughes and Ucbasaran (2010) combined the different research to provide all the factors which were agreed upon and considered important by most of the researchers. The first component in the support system of internal environment is abutment for risk taking attitude (Hornsby et al., 2002; Hayton, 2005), employee should be rewarded if the outcome is profitable for the company which will motivate them further to seek more opportunities, at the same time firm should have resources for damage control if things don't work out in anticipated manner. Secondly employee should be given decision making freedom to achieve organizational goals in non-conventional but best possible manner (Hornsby et al., 2002; Kuratko et al., 2005). Thirdly developing a level of interaction between individual for exchange of knowledge and combination of idea throughout the organization Ireland et al., 2003; Hayton, 2005; Jansen et al., 2006; Kelley et al., 2009). Lastly support from authority figures in terms of both motivation and resources (for example- information, time, knowledge) so that individual can actively locate opportunity and act entrepreneurially (Hornsby et al., 2002, 2009; Kuratko et al., 2005; Shepherd et al., 2007).

For CE to exist within firm, human resource management (hereafter HRM) practice depends upon factors like demolition of domination within the firm so that employee can actively participate in decision making. This collaboration within firm will inspire employee to develop a more flexible attitude towards risk taking and creativity (Luchsinger and Bagby, 1987). Encouragement in form of compensation can be provided for the employee to behave more entrepreneurially but a constant monitoring of their performance is equally essential to keep the employee on the right track. (Hughes and Ucbasaran, 2010).

For employee to behave entrepreneurially incentive provided should be a combination of both intrinsic (for example: authority, calibre, dignity) and extrinsic rewards (for example: compensation). Even though Sykes (1992) suggested that intrinsic rewards are reason enough for individual to behave entrepreneurially, extrinsic reward can further encourage employee to behave entrepreneurially (Balkin et al., 2000; Chandler et al., 2000). Morris et al., 2008; Ireland et al., 2009 suggested that compensation offered on the basis of contribution rather than result, will motivate employee towards risk taking and

creativity. Barringer and Bluedorn (1999) supported this theory in their finding that compensation practices if restrained by financial control can result in short sightedness among individual which will affect long term strategy and outcome of the organization. Therefore long term rewards strategy will not only facilitate opportunity identification (Ireland et al., 2006a, b) but it should also help in disposing firm's human capital to obtain desirable result.

Giving individual liberty and freedom to take decisions within the organization may influence their opportunity identification capability in a positive way (Burgelman, 1983; Lumpkin and Dess, 1996). Providing self-governance to employee will help them accustom with daily exercise in a better way, maintaining a level of flexibility and comfort so that they can work more efficiently (Hayton, 2005; Luchsinger and Bagby, 1987). This facilitates the employee to not only identify and explore opportunity but also to face problem in the market which else way they would be unconcerned of otherwise(e.g., Hornsby et al., 2009).

Higher autonomy encourages unrestricted behaviour within the organization which leads to establishment of relationship among employee (Hayton 2005) which facilitates sharing and combination of knowledge and skills leading to opportunity identification as final outcome (Kang and Snell, 2009, Hughes and Ucbasaran, 2010).

Organizational structure and practices assist development of human capital via social capital development. Establishing connections within organization enable higher level of communication which accredits exchange of knowledge and skills (Hayton, 2005). Ireland et al. (2003) suggested that interaction of individual with different background and speciality will encourage information exchange and modification leading to establishment of innovative ideas encouraging entrepreneurial behaviour.

As each individual possess different set of skills and knowledge, opportunity identification should be supported when individual having different knowledge within the firm come together. Reciprocity is necessary as it ease the creation of new ideas and thoughts when individual throw-out organization comes together for opportunity identification (Hughes and Ucbasaran,2010).As Hornsby et al., 1999; Sethi et al., 2001 suggested that “ cross-functional” crew positively influencing entrepreneurial results by facilitating innovative performance, firms focus more on encouraging team work and developing social skills within organization. Team work amplifies quality of learning due to interaction among individual, on the other hand establishing social skills helps to develop awareness and understanding among employee from different background (Jones et al. 1995; Nonaka and Takeuchi, 1995).

Motivating employee to exploit their knowledge and skills for opportunity identification demands management support (Eisenberger et al., 1990; Hornsby et al., 1999, 2002, 2009; Chandler et al., 2000; Hayton, 2005). The support can be 1) inspiring individual to actively participate in entrepreneurial activities, enforce reward system for innovative ideas (Hornsby et al., 2002) 2) providing necessary guidance and resources (Kuratko et al., 2005) 3) encouraging employee to develop a risk taking attitude and prepared for damage control if the outcome are not positive (Burgelman, 1983; Stopford and Baden-Fuller, 1994) 4) investing in entrepreneurial activities rather than outcome of human capital (Hitt et al., 2001). Organization support helps to bridge the gap between individual and organization which encourage information exchange (Hayton 2005) but the extent to which this support system works depends on the relation between manager and employee (Hornsby et al., 2009). Managers that are unapproachable by employee will probably have weaker social ties.

To support entrepreneurial behaviour and motivate employee to be creative, leadership is another important factor (Dess et al., 2003). Leaders are supposed to define and establish organization's goals and convey them to employee and encourage them to pursue those goals in best possible way. Leaders are required to maintain oneness within organization by continuously encouraging knowledge exchange and modification for corporate opportunity identification.

The above analysis commend that to obtain positive output, internal structure of firm should be supportive for employee. Otherwise employee may lose track of firm's strategies and human capital may not be used appropriately to identify and exploit opportunities. Lack of support and extreme domination will suppress the creative potential of employee. On the other hand organization offering support to employee in form of resources, motivation and encourage team work are more likely to get better entrepreneurial outcome. (Hughes and Ucbasaran, 2010).

### **3.4) Human Capital and Corporate Opportunity Identification (Paths 3):**

Human capital and opportunity identification is manipulated by Entrepreneurial Orientation (hereafter EO) of the firm. EO can be defined as the firm's ideology towards creativity, innovative activities and tolerance towards risk to actively look for profitable opportunities in environment (Lumpkin and Dess, 1996; Miller, 1983). EO highlights the approach, conventions and decision making characteristics of the organization to act more entrepreneurially (Lumpkin and Dess, 1996). EO is considered important for improving firm's performance but recent studies are focusing more on internal issues of the

organization (De Clercq et al., 2010) which were not given much consideration by prior researchers.

An EO describes the attitude of firm towards seeking new opportunity for profitable venture creation (Lumpkin and Dess, 2005). So an EO can be seen as knowledge framework for organization. The framework elaborates formation of information hierarchies on the basis of old information learned alongside newly gained information. It helps to overcome inconsistent information and fills the gaps arising due to these inconsistencies (Fiske and Taylor, 1991; Walsh, 1995). Due to the abundant of information available in the environment, EO helps to understand which information is important for firm's growth and performance improvement so that individual can ignore irrelevant data and pay attention towards firm-specific resources. As EO represent ideology of an organization, it can be concluded that it defines how individual working for that organization will handle and interpret information for opportunity identification.

In dynamic surrounding, along with necessary human capital entrepreneurial motivation is also necessary for efficient performance of the firm. In this case an EO might help to direct the human capital of the firm in right direction so that individual within the firm can understand the new opportunity space and react accordingly while others would be busy tackling the hazard rising from the irregularities in the environmental . Thus entrepreneurial intentions (Bird, 1992; Krueger, 1993; Krueger and Brazeal, 1994) increase the possibility of opportunity identification as individual are more flexible and aware. This encouragement to act entrepreneurially even in adverse condition is more likely to come in supportive surrounding, where individual are inspired to be creative and the policies of firm are flexible and welcome innovative ideas. While social norms (Ajzen, 1991) have a direct effect on individual behaviour, EO may influence the desirable course of action and define firm's flexibility towards those actions.

An EO is certainly related with gaining knowledge and using that knowledge efficiently, as it structures organizational attitude which explains the way in which people acquire and utilize information (Keh et al., 2007). When individual work in group within the organization, entrepreneurial action will lead to combination of ideas which might lead to formation of new ideas. Thus social exchange within the organization can lead to formation of new human capital, generated out of combination of information from different individual which encourages further entrepreneurial actions. (De Luca and Atuahene-Gima, 2007)

Therefore a firm with powerful EO is likely to discover more opportunities. The reason being the strength EO provides to the organization by defining knowledge framework, which helps individual to understand and refine

available information at organizational level in dynamic environment. This can be better explained by Krueger (2000) theory which demonstrates the need of intention for any possible action. Thus an EO clarifies the strategic intention (Hamel and Prahalad, 1989) of an organization which may help individual to identify opportunity better than others as they will understand the requirements of the firm. Even with exceptional human capital, opportunity might go unnoticed if firm is not willing to peruse those opportunities further, withholding the employee to look for opportunity in future (Wiklund and Shepherd, 2003).EO can save individual from this darkness and motivate them towards creative thinking and developing risk taking attitude towards innovative ideas. These will extent the entrepreneurial potential of employee as they will try to analyse environment deeply considering different possible scenario. Recent studies support this argument by explaining the positive influence of EO on product innovation (Atuahene-Gima and Ko, 2001) and firm's performance (Bhuian et al., 2005) in the organization.

### **3.5)The Dynamic Nature of the Relationship between Human Capital and Corporate Opportunity Identification (Path 4):**

Till now we have talked about the effect of human capital on opportunity identification in corporate entrepreneurship. We think that the relationship is reciprocating in nature. Individual identify opportunity based on knowledge and skills, the process of identification and exploitation of these opportunity opens another door for individual to learn and modify human capital in the process. Due to the dynamic nature of environment it is not possible to perform actions and take decisions on the basis of same set of human resources for very long. The argument is supported by recent studies proposing that constant development of knowledge and skills by learning (Dess et al., 2003) is compulsory in CE.

As mentioned earlier human capital is a combination of knowledge and skills. This knowledge can be subjective (for example- education) or gained from experience of individual. Out of the two modes of acquiring knowledge past experience is given more importance (Unger et al., In Press).If individual have prior entrepreneurial experience then it is possible that they will identify opportunity better than others and this experience will modify and enhance their knowledge and skills throw learning. Researchers argued that knowledge is something which is created by combination of past experience with current environment changes to facilitate existing opportunities and exchange of thoughts and information between individuals (Nahapiet and Ghoshal 1996).And since opportunity identification is a factor of both knowledge and skills, it is most likely to be affected by the pair of exchange and combination which in turn will lead to modification and creation of knowledge which

improves quality of human capital for the organization. McCauley et al., 1994 supported the theory by suggesting that the process of opportunity identification and exploitation in turn creates opportunity for individual to learn and create knowledge.

### **3.6 Organizational Structures and Processes as Moderators of the Relationship between Corporate Opportunity Identification and Human Capital (Path 5):**

Even though individual acquire experience from opportunity identification process, the extent of learning from the process depends on individual's motivation to learn (McCauley et al., 1994) and the level of learning from the opportunity identification process (Corbett, 2007).

The encouragement to learn might come to overcome the knowledge inconsistencies i.e. to understand technological changes, failure to identify opportunity in past before the competitor or the motivation to get high incentive by exploiting a profitable opportunity (McCauley et al., 1994). Without encouragement to learn it is possible that individual may fall in routine work without brainstorming and learning just from everyday experience (Zollo and Winter, 2002).

Learning is basically done from prior experience (Bazerman, 1990; Corbett, 2007). As every individual have a different interpretation of information, it is possible that evaluation is inconsistent based on biased judgement. Due to this the process of learning is different for every individual and prone to flaws which may lead to irrelevant and misleading conclusions (Zakay et al., 2004). To overcome this flaw, the concept of “double-loop learning” (Argyris and Schön's 1978) was introduced. The theory suggests constant monitoring, to be more aware of the whole learning process. In order for the individual to understand what they are doing and how it is relevant, continues assessment of the gaps between objective and method is fundamental. Therefore active learning (Hughes and Ucbasaran, 2010) is a requirement in the organizational framework not only to avoid ambiguous learning but also as a competitive advantage for the firm.

The absorptive capacity (Hughes and Ucbasaran ,2010) of individual working in the firm is a function of structures and processes by which knowledge is leveraged, transferred , created or modified within the firm(Lichtenthaler, 2009). This absorptive capacity affects the level and motivation for learning in both internal and external environment. In external environment individual may learn from their competitor, customers or events happening in the surrounding which are not directly associated to the firm. On the other hand individual can learn within the firm from knowledge gained by

past experience of others, this may rely on firm's methods (structure and processes) of conveying that knowledge.

The knowledge generated from CE activities has to be conveyed properly to the individual for developing a better understanding of the knowledge and its implication Crossan et al., 1999; Zahra, Nielsen and Bogner, 1999. For this, adequate organizational process has to be implemented as level and motivation of learning can be highly influenced by organizational structure and processes. Constant monitoring of work within the organization and providing employee feedback along with recommendation may help individual to improve (Snell and Dean, 1992; Griffin et al., 2007). Periodic training for the employee to develop better understanding of opportunity space and organization's goal is important to keep them on the right track. Internal communication and fancy incentive will encourage the employee to learn more. Internal communication can be developed through career counselling where the employee would understand the scope of learning and establish personal initiative, team based exercise where individual communicate, share and combine knowledge will also help in spreading knowledge throughout the firm (Crossan et al., 1999; Zahra et al., 1999; Kang and Snell, 2009).

Organization which implements structures and processes (mentioned above) may or may not be benefited. Galunic and Rodan (1998); Haas and Hansen (2005) argues that the reason behind this is the ambiguity associated with the tacit knowledge gained from experience which makes it difficult to share and combine both in internal and external environment. Collective learning in a team based structure is a way to overcome this flaw and improve knowledge base. When individual work in a team share their views and question with others (Argyris and Schön, 1978; Crossan et al., 1999), creative ideas are generated from a combination of different set of knowledge and skills. Learning capability can be further improved by properly analysing and arranging information for the ease of understanding. Comprehensive formats where information is manually recorded in form of report and blue print, is helpful not only for smooth fulfilment of the task and future learning but also for better understand of strength and weakness of the whole process (Zollo and Winter 2002).

To conclude, the effect of opportunity identification on the firm's human capital depends on individual's inspiration and characteristics (ability and quality) of learning. Encouragement may be given to employee by providing them with a platform where they can work by themselves individually or in teams and reflect on learning through past experience and from sharing knowledge with others. On the other hand characteristics of learning as mentioned above are influenced by firm's framework and methods (structure and processes). This comprises of incentive based creativity for knowledge and

learning along with proper delivery and cataloguing of useful information (Hughes and Ucbasaran ,2010).

### **3.7)Influence of human resource management practise on innovative performance of individual (path 6):**

Innovation is one of the most researched topics in CE. From human capital prospective, prior research has given more attention to the effect of decision making methods on innovative performance (e.g., Balkin & Bannister, 1993; Balkin & Gomez-Mejia, 1984, 1987; Balkin, Markman, & Gomez-Mejia, 2000). Within organizational context the central question is how firms can promote innovation in the highly uncertain environment with a possibility of the innovation not being successful. Balkin et al., 2000 mark that if the firm want individual to be more innovative then they should be ready to make risky investment, the theory also highlights the importance of compensation level based on the level of risk.

The compensation level depends very much on the environment in which the firm exists. If the firm is in a high risk environment with elevated level of uncertainty the compensation level are also going to be high as compared to a mature firm in a stable environment Balkin and Gomez-Mejia (1984). While studying organizational behaviour, where individual generally work in teams, it is hard to follow the compensation theory as individual work in group and some employee may actively contribute while others don't. Therefore compensation system should be designed on individual basis, so that employee who are contributing are rewarded accordingly so that they are motivated to be more innovative, on the other hand this will also encourage passive employee to participate in innovative activities. Agency theory suggests those firm which monitor innovation and tie a reward solely with the innovation and not the outcome are considered more entrepreneurial (Hayton, 2005).

#### **3.7.1) HRM systems and innovation:**

Research shows that even though innovation of any firm is a factor of risk acceptance and incentive offered Soutaris (2002), it is influenced by a combination of HR practices like team work, motivation, and authorization along with incentive. The combination of above factors is variable depending on the radical knowledge requirement of the industry (Laursen, 2002; Laursen and Foss 2003). Although the above practices combined may help in innovative performance of the firm, the influence of each of these factors is highly industry specific. Industries with high knowledge requirement are more affected by performance related pay due to fast growth and changing knowledge requirement. On the other hand team work is may be considered more important



for firms with medium knowledge requirement, Laursen (2002). We suggest that due to high variability associated with the factors ( team work, authorization, incentive), combination of the factors may not going to be a major contributor in the innovation aspect CE. The analysis is supported by Laursen and Foss (2003) theory who explained that the combination will offer little advantage due to lack of consistency in the requirement.

Briefly covering, incentive paid to individual based on elective performance are the central issue while exploring the innovative aspect of CE. However the level of incentive paid is not fixed and it will depend on dynamic nature of internal and external environment. Individual have to be creative and aware every time due to the uncertainty associated with the innovative contribution. Future research should pay more attention to these organizational complexities, as they affect the innovative performance of the organization (Balkin & Gomez-Mejia, 1984, 1987; Hayton, 2005).

Above piece of work is structured around “human capital framework of corporate opportunity identification” model by Hughes and Ucbasaran(2010). Even though Hughes and Ucbasaran(2010) covered discrete aspects of human capital including types of human capital, influence of human capital on firm’s performance, effect of - entrepreneurial orientation, structure and processes of organization on human capital and vice versa. The paper lack in defining human capital from innovation prospective, as the study focuses on human capital from corporate opportunity identification prospective and corporate opportunity identification is a function of both creativity and innovation, we think that defining innovation from human capital management prospective is inevitable. We address and analyse the proposition suggested by Hughes and Ucbasaran(2010) including another dimension of innovation within human capital which bring attention to importance and influence of innovation to corporate entrepreneurship and human resource management practices.

Proposition 1a: Firms with a superior human capital base will identify a greater number of opportunities in a given period.

Proposition 1b: The relationship between human capital and corporate opportunity identification will be strongest when both firm-specific and entrepreneurship-specific human capital is high.

Proposition 2: Firm structures, processes, and practices will moderate the relationship between human capital and corporate opportunity identification.

Proposition 3: An entrepreneurial orientation will positively moderate the relationship between human capital and corporate opportunity identification.

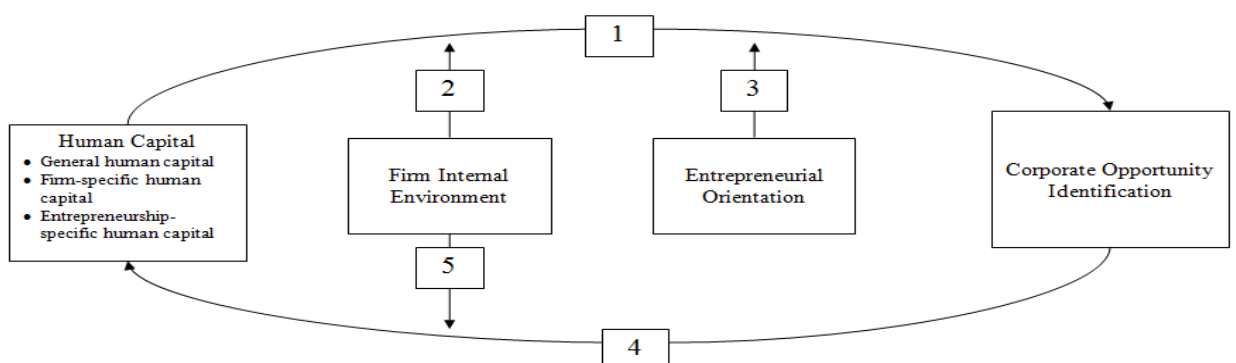
Proposition 4: Experiences with corporate opportunity identification will increase *the quality of an organization's human capital* base.

Proposition 5: The increase in the quality of human capital resulting from experiences with corporate opportunity identification will be positively moderated by the extent to which organizational mechanisms designed to motivated learning and improve the quality of learning (such as knowledge articulation and codification) are in place.

Proposition 6: innovation is one of the important factors of human resource management with respect to CE and the *firm's* which monitor innovative contribution and associate compensation with investment rather than outcome are more entrepreneurial.

Proposition 7: HRM practices (team work, compensation offered) are industry specific and, Different industry requires a distinct combination of these practices along with risk management to improve innovative performance of the firm.

**Figure 1: Human Capital framework of Corporate Opportunity Identification.**



## **4) Methodologies**

### **4.1) Case choice and background:**

The case study is focused on Samsung Electronics Corporation, after being launched in 1938 as an export business in South Korea, Samsung group now functions in various business areas including advanced technologies, construction, semiconductors, petrochemicals, fashion, medicine, hotels and finance. The group's leading company is Samsung Electronics; it manufactures and sells high end electronics and digital media products in international market. To analyse human capital within corporate opportunity identification and innovation prospective a case study was more appropriate as it provides entire description in a better way as compared to quantitative approach (Jick, 1979), the feasibility resides in the fact that "human capital" is a relationship based (Hughes and Ucbasaran, 2010) phenomenon which can be better examined under case study. Likewise, Yin (1994) also suggested that when the centre of study is a more recent topic based on real-life circumstances, and when the question like "why" and "how" are asked case study should be a favourable approach.

Using a single case facilitates examiner to study more intensively and crucially consider every aspect of the situation (Burns, 2000). Therefore, a single case can not only accord to the existing theory, providing facts which can establish authenticity of the provided phenomenon but it can also highlight the flaws in the current theory and point the researchers in right direction to explore otherwise neglected issues (Burns, 2000; Eisenhardt, 1989). Even though researches argue that a single case makes it almost impossible to provide generalized results (Eisenhardt, 1989), Yin (1994) argued that single case approach is used to analyse particular situation which are distinct from established standards or setting where the phenomenon is left under-explored in both theoretical and experimental research. The scope of learning from these single cases makes them preferred choice over quantitative approach. Samsung Electronics is powerful suitor for single case methodology because for existence in diverse technology requirements of the industries demands constant innovation and opportunity identification; the distinct characteristics of Samsung Electronics are rare in industry which makes it suitable for single study approach.

Changes in the technology industry are frequent and often focus shifts from existing dominating technologies (Tushman and Anderson 1986). The technology shift requires modification of existing knowledge and skills and creation of new knowledge throughout the organization to identify and exploit new opportunity. These changes in skills are a factor of firm's processes,

structures, motivation and quality of learning. The innovative response of Samsung Electronics (SEC) towards these radical changes makes its contribution inevitable towards human capital literature. Particularly the key strength of Samsung namely “new technology”, “innovative products” and “creative solution” highlights the importance of strong human capital of the company for opportunity identification, knowledge creation and modification in the industry, which is the central aspect of this study.

#### **4.2) Case construction:**

The data for the study was collected from secondary sources due to restricted time frame and easy access to company database. Statistical data for the company was collected from annual report, company’s website and Mintel database. Case data was collected from Howard Business review, Fortune magazine, Journal of public relation and research, scholar articles and past case studies over the year 2009-2011. New publication were searched using the terms “Samsung human capital”, “Samsung people”, “organizational behaviour”, “Samsung structures and processes” , “Board of director” and “human capital management”. The time frame of 2009-2011 is significant due to radical changes in the technology industry and increasing popularity and demand of Samsung’s products in market. Last few years have been important for Samsung in terms of decision making for external growth (coping with recession, technology changes, launching new products and facing high competition in the electronic market which is the leading sector of Samsung group) and internal development (hiring new talents, retaining existing one , providing high compensation to employee). These decisions define company’s ideology towards innovation and creative thinking which exemplify the human capital management requirement for the company.

Even though the data was collected on the basis of propositions concluded from theoretical research, there were no defined set of questions to keep the study unrestricted so that more than required insight can be provided leading to modification of existing theories and construction of entirely new phenomenon (Andersen and Christensen, 2005).

Authenticity of data is achieved by using data only from reliable sources. As Yin (1994) suggested, validity of data would be established through triangulation by using multiple sources conformation for each piece of information to attenuate the possibility of mistakes. Observations and conclusion derived were properly referenced and cross checked to ensure that the case study reflects only on valid facts.

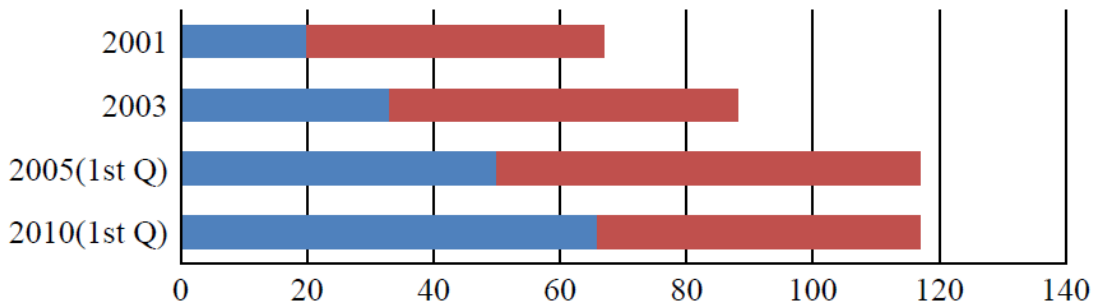
### **4.3) Case analysis:**

The case study data was examined in loops to identify themes (Yin, 1994) between the proposition suggested by the literature and what the firm is doing. The data was then arranged in an array of key words supporting the theory of human capital. This method provides the ease to determine, analyse and understand the human capital activities of SEC (Faria and Wensley, 2002). And to search for resemblance and contradictions between information provided and theoretical assumptions.

### **5) SEC Case Study**

Established in 1938 by Byung-Chull Lee as a fruit and sundry-good Export Company, now Samsung group is one of the biggest corporate body in South Korea and the world, with revenue of \$ 227.3 billion in 2010 and 315,000 employees worldwide (Khanna, Song and, Lee, HBR July –Aug 2011). Samsung group is best known for its chief affiliate Samsung Electronics (SEC) – world's largest manufacturer of consumer electronics products like: Semiconductor, cell phones, television sets and LCD panels. SEC exerts approximately 117,000 people in domestic and international offices. Nearly 66,000 employee work in South Korea, out of which 27,000 are working in research and development department, which is 41% of overall employee in South Korea. Roughly the total numbers of local employee abroad are 51,000. They work in various branches like Sales, production, R&D for the company. Even though the numbers of SEC employee have sharply increased from 2001 to 2010 ( Chang, 2012 ), the ratio of domestic employee to those overseas more or less remains the same (figure 2). Chairman Kun-Hee Lee and his family are currently in possession of less than 4% (Chang 2008) of Samsung Group shares. It is argues that they possess more shares throw cross- shareholding in different branches of Samsung group. Focusing on SEC, prior to the Asian financial crisis 1997, the traits of SEC's organizational structure were handles by Headquarter Executive Staff. The name was changed to Group Strategic Planning Office (GSPO) in 2007; still many call it by its original name. The basic activities of GSPO were auditing, planning, finance/accounting and the hiring/firing of all executive within the Samsung group.

**Figure 2: The number of employees in SEC ( in thousands)**



	2010(1st Q)	2005(1st Q)	2003	2001
■ Domestic	66	50	33	20
■ Foreign	51	67	55	47

In early 1990's Chairman of Samsung Lee- Hun Hee identified an opportunity in digital technology market for expanding SEC. Digital technology was gaining popularity in the cameras, audio device and other electronic equipment. Japanese companies which were dominating the consumer electronic market at that time were focusing on analog technology and were reluctant to adapt new technology. This was indeed an opportunity for SEC to build the creativity, agility and innovativeness and suppress their rivals in a new market. This was a turning point for SEC to grow as a brand on international level.

Once known for making low-cost convenient store products, SEC is now the most respectable innovative and profitable brand in consumer electronics. SEC had doubled the market capitalization of Sony, replacing it as world's leading consumer electronics company. Today SEC is world leader in making highest number of memory chips, colour television and flat panel LCD display and is fighting Motorola to become world's second maker of mobile phones after Nokia ( Lewis , Fortune Sep 2005).

SEC's products are popular worldwide known for their innovative features and good quality. The company is moving at a fast but steady pace. Almost every week Samsung announces "World's First", "World biggest" or some other product in some area. They have registered for the highest number of U.S. patents every year– 16 000 in 2004 as compared to Intel (Lewis, Fortune Sep 2005).

## **5.1) A Tightly Fitting Hybrid system:**

Two decades ago fewer people would have imagined the transformation of SEC from a low-cost equipment manufacturer to a world leader in consumer electronics (R&D, marketing and design) with a brand more prestigious than Pepsi, Nike or American Express. In the past twenty years, SEC has been joining western business practices with its essentially Japanese system, integrating its tradition low cost manufacturing strength with skills and dedication to bring high margin, high quality product to market.

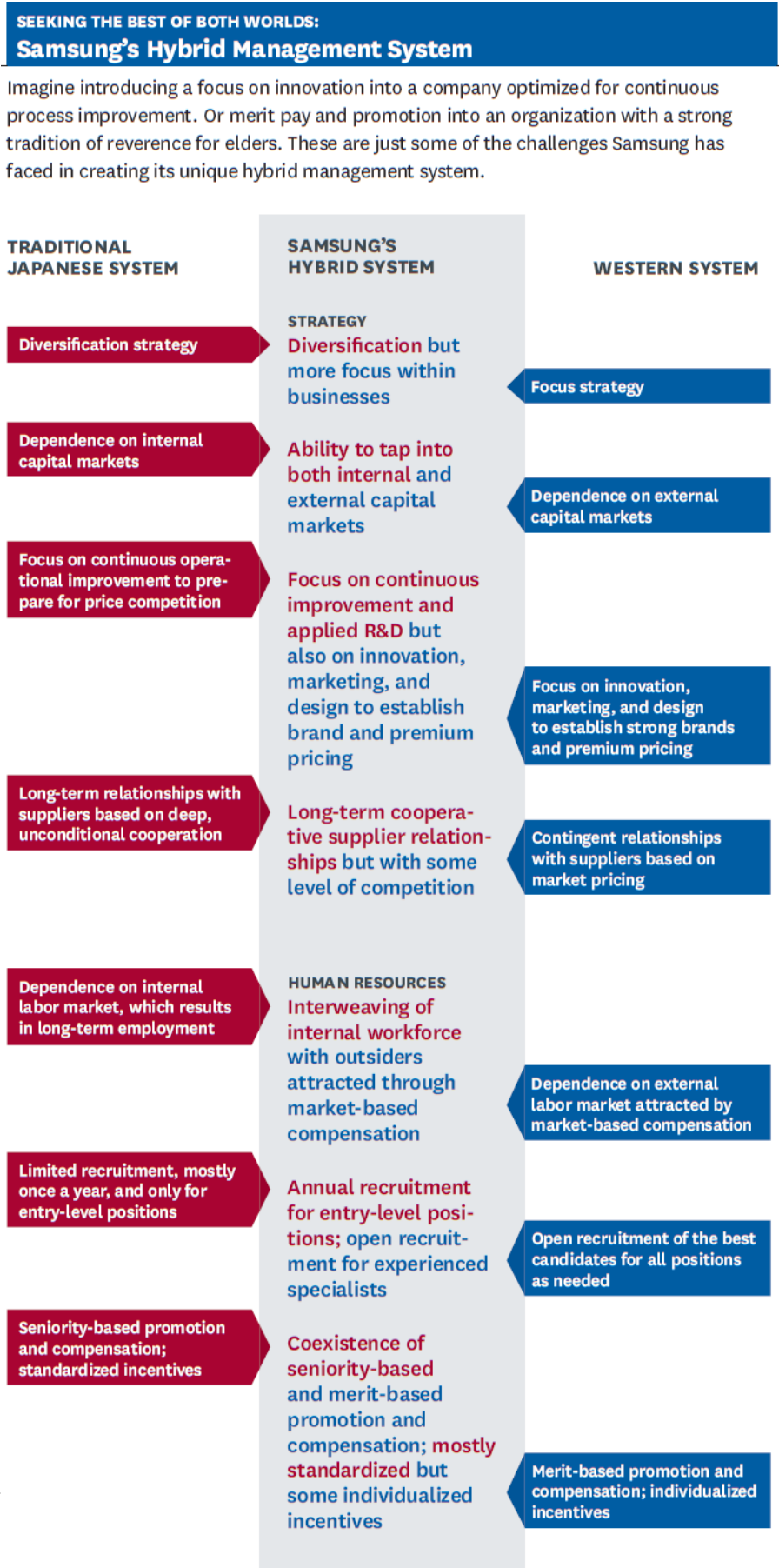
To cultivate the skills of making high quality products at relatively low cost, in 1993, Lee launched the 'new management initiative program' to import best practices from Western countries, related to talent management, strategy formation and compensation into SEC's existing business model. The aim of launching this model was to retain core competencies such as manufacturing power and plant operation, but at the same time improve marketing, design and R&D. Implementation of this mix and match strategy took three forms. Firstly to identify, adapt and implement most appropriate western practices. Secondly steady but continuous effort to make SEC culture more open by bringing outsiders in and sending insiders abroad. And lastly, intervention by the chairman to protect long-term investment from short term financial pressure (Khanna, Song and, Lee, HBR July –Aug 2011).

In this way Samsung adopted a hybrid management system as a series of experiment. The hybrid model was first implemented in SEC but after remarkable growth in the affiliate, the model was executed through-out the Samsung Group.

### **5.1.1) Samsung's Japanese roots:**

When Samsung was founded, South Korea was a Japanese colony. Samsung's founder and chairman (Lee's father) received his whole education in Japan. The sector which the company chose to enter and built itself was consumer electronics, memory chips and LCD panel – a market segment once dominated by Japan. Thereafter SEC started to rise in domestic market under Japanese model of unrelated multifariousness and vertical unification. Multifariousness was easy to implement in South Korea due to country's weak external ties as it allowed the company to rely on internally generated cash originated from one operation to invest it in another operation. The Japanese pyramid labour model also suited South Korea as the country's managerial labour market was under developed making mobility across corporation tough. Implementing Japanese model also facilitated development of stock market and provided sufficient competition for talents, along with retaining tradition values

of respecting elders. This led to the advancement of seniority based compensation and promotion system. The Seniority based system and its implication on SEC are later discussed in detail.





## **5.2) SEC HRM practices**

SEC aim to become one of the world's leading electronic company in the twenty first century (Samsung Electronics 1997, Annual Report 1996). To reach this goal SEC faces the challenge to not only acclimate to sustain strong competition but also build advanced self-developing product capabilities in the international market. The company has been long aware of these challenges as SEC Chairman Kun-Hee Lee address these issues in the June 1993 Frankfurt Conference. The HRM practices implemented by SEC over the time have been explained below.

### **5.2.1) Recruiting method and buy strategy :**

SEC follow the 'buy' strategy suggested by Bae, Chen and Lawler (1998) to hire people from external labour market in order to achieve competitive advantage in the international market. The company which was initially very traditional in terms of hiring employee of only Korean ancestry is now trying to globalize the recruitment process by accepting application from different countries and background (construed later in "bringing Outsiders In" section), implementing international internship program and investing more in overseas recruitment (Chang, 2012). The company is focusing on identifying ways to attract and retain highly talented individual specially scientists and engineer to fulfil its core business requirement. Lee, Gang, Lee and Cho (2002) in their book ' Samsung Rising' stated that SEC recruit highly qualified people and its ability to identify strength of each employee, and assigning appropriate division is superior as compared with other Korean companies. 25% of the clerical workers in SEC are highly educated and hold either master's or doctoral degree (Lee et al. 2002).

SEC's first step away from the traditional hiring process in which employee were mainly hired on the basis of past relations with the company, was in 1957 when it started 'Gone-*chae*' an open employment system through which employment opportunities are made public via advertisements on television , in newspaper or on the SEC homepage (Lee 1997) . The system was inspired by hiring system in western countries. 'Gone-*chae*' basically consist of a written examination to check English proficiency, a general knowledge test and an essay test based on specific topic (Lee 1997). Apart from these levels, in order to hire individual who are more suitable for SEC's environment, the company developed Samsung Aptitude Test (SSAT). SSAT comprise of two segments namely SAT and personality test. The SAT section evaluates students on mathematics, statistics, and reasoning and current event knowledge. The

personality test consists of interview and question to assess personal background, past behaviour and future plans. Assessment tool for personality test consists of case analysis and group-based discussion. (Chang, 2012).

In addition to established recruitment system SEC also recruit students and fresh graduates from scholarships and internship program. Currently, SEC have started internship program for students from European, Asian and South American countries to attend graduate program at Korean university (Chang, 2012). To attractive key players working in US companies to join SEC, high level sometimes even executive level positions are offered.

### **Bringing Outsiders In:**

Due to the prejudiced culture of SEC, for decades the only outsider the company recruited were of Korean ancestry. In 1983 when SEC entered the memory chip market, it hired engineer and executive from a non- Korean background. These people later played crucial roles within the organization and positively contributed towards Samsung success in the memory chip industry. Lee tied to use this same strategy while hiring senior executive (S-level employee), but the company faced an alarmingly high resistance from within the organization (Khanna, Song and, Lee, HBR July –Aug 2011).

The incumbent managers and other employee made the life of outsiders tough by setting the newcomers to fail by withholding important information, amplifying their mistakes and excluding them socially. This reaction in part was justified as initially Samsung's recruiter didn't have the proper understanding of what was expected of them. Sometimes the new recruits who have performed well in their past jobs didn't fit into the tightly knit nature of Samsung's culture. But the few disappointments magnified prejudice within the organization (Khanna, Song and, Lee, HBR July –Aug 2011).

Taking the example of Eric Kim who was recruiting in SEC in the in 1999 as chief marketing officer, today he is considered the pioneer of "Samsung DigiAll" marketing campaign and strategy that turned Samsung into a truly global brand. Even though Kim got the full support of SEC CEO Yun Jong-Yong, he had a hard time getting support from other senior people. Particularly in the first two year of his work at SEC people were reluctant to support him and he was emotionally isolated from them. In the year 2004, when his contracted ended, he left SEC to become chief marketing officer at Intel (Khanna, Song and, Lee, HBR July –Aug 2011).

Learning from this Yun took steps to make the survival of newcomers easy within the organization by arranging them to spend first few months in the advisory capacity, so that they can understand the culture and their colleague before taking their posts. He also formed a formal mentoring committee in which he personally met every S- level employee to provide and receive feedback.

SEC's effort of recruiting MBA's and PhDs from a non-Korean background was blocked by political, cultural and social pressure which was heightened by the language barrier. To overcome this Global Strategy Group was established which report directly to the CEO. Member of these group- non Korean graduates from western business and economic program who have worked for leading companies like McKinsey, Goldman Sachs and Intel were required to learn basic Korean before taking up their posts. Many of them were usually send back to their home countries to work.

Cultural fit was one of the biggest challenges SEC faced. Out of the 208 non- Korean MBAs recruited into GSC, 135 are still working for Samsung as of 2010. Of these, the most successful are those who have made more effort to fit in the Korean culture (Khanna, Song and, Lee, HBR July –Aug 2011).

### **5.2.2) Promotion hierarchy and grading system:**

The grading system for SEC (table 1) is divided into two segments: general manpower and R&D and design. The first one has a pyramid structure with five status rank: the highest level is boo-jang (general manager) which is followed by cha-jang (deputy general manager), kua-jang (manager), dae-lee (assistant manager) and sa-won (staff) which is further divided into three depending on educational level. R&D and design also have a hierarchy with four ranks: sa-won (staff), seon-im (assistant manager), chaek-im (seniority) and soo-seog (head) (Lim 1999).It takes approximately eight year to reach the status of kua-jang, this explains why most of the Korean companies including SEC are facing imbalance between management and staff. The grading system of SEC is also inclining more towards managers in terms of responsibility and position (Samsung Electronics 2006, SEC's Annual Report 2005). In order to correct the flaw in the traditional management style in which the seniority system dominate decision making for promotion, SEC later broached a merit- oriented personnel system. To develop the grading system for the career development of employee, the existing minimum number of year for each grade was altered to average number of employment years, which increased the opportunity of early promotion for talented employee. Currently at SEC two different systems are used for promotion of managers and staff. Promotion of staff is still done on the

basis of length of service, results of examination and job performance evaluation; on the other hand promotion for managers is more inclined towards ability-oriented system. For managers no examination is required, promotion system is more influenced by performance, recommendation, awards, international experience, past duties and experience (Pucik and Lim 2001) .The new grading system for SEC focus more towards developing an efficient promotion system which motivates the employee for improving the ability, but at the same time giving employee with a sense of job security (Chang, 2012).

**Table 1 : Job grading and job family at SEC.**

<i>General job family</i>			<i>Job family for R&amp;D and design</i>			<i>Scholarly attainment</i>
<i>Job grade</i>	<i>Sub-grade</i>	<i>Status ranks</i>	<i>Job grade</i>	<i>Sub-grade</i>	<i>Status ranks</i>	
G7	II Grade I Grade	GM ( <i>Boo-jang</i> )	E5/C5	III Grade II Grade I Grade	The head ( <i>Soo-seog</i> )	
G6	II Grade I Grade	DGM ( <i>Cha-jang</i> )	E5/C5	III Grade II Grade I Grade	Seniority ( <i>Chaek-im</i> )	
G5	II Grade I Grade	Manager ( <i>Kua-jang</i> )				
G4	II Grade I Grade	Assistant manager ( <i>Dae-lee</i> )	E3/C3	IV Grade III Grade	Assistant manager ( <i>Seon-im</i> )	Master/doctor
G3	II Grade I Grade	Staff ( <i>Sa-won</i> )		II Grade I Grade	Predecessor in office	Bachelor
G2	–		E2/C2	–		College
G1	–		C1/C1	–		High school

Notes: GM, General Manager; DGM, Deputy General Manager.  
Source: Samsung Electronics (2006), Annual Report 2005.

### **5.2.3) Evaluation system:**

Assessment of individual performance in SEC for promotion and compensation is done throughout the year at different level, based on different criteria. The appraisal system is massively affected by merit-pay system and incentive system due to this the SEC HR cycle has 180-360 performance reviews (Chang, 2012). Individual in SEC are assessed on the basis of two criteria: performance and proficiency. The assessment of performance is done twice a year for promotion and compensation in June and November. The proficiency evaluation is conducted once a year in September. The outcomes of performance and proficiency evaluation have a high impact on career growth

and success (Pucik and Lim 2001). Assessment of performance is done at two levels, first by the direct supervisor and then by higher-level managers. On the contrary for competence, the first evaluation is done by higher level manager and then by direct supervisor. Generally, the first level of both the assessment determines the final grade. Performance evaluation basically focuses on the improvement in terms of work quality, and achievement of quantitative objectives. On the other hand proficiency evaluation is done on the basis of employee's dedication towards the company and what steps they are taking or how did they contributed to take the company one step forward. One notable company policy is that in the first two years include only employee training and development; in this interval no performance evaluation is done. More attention is paid towards developing aptitude and ability of individual to make them more apt for the company environment.

In proficiency evaluation, managers generally focus on the two important factors: problem solving competence and employee oriented characteristics. Problem solving competence is based on employee ability to structure plans, take important decisions under pressure, motive others in adverse situation and manage organization. Factors influencing employee-oriented characteristics are the ability to meet challenges and self-improvement, eagerness to share knowledge and experience with others, influential personality, high concentration and progressiveness towards established goals, good human nature and morality. SEC introduced a 360- degree appraisal system to restore fairness and credibility in the evaluation system. Along with the opinion of supervisor, conception of both subordinate and colleagues are considered in determining the final grade of employee. SEC recently introduced self-assessment in the appraisal system to increase employee motivation and career development (Chang, 2012).

#### **5.2.4) Compensation structure and practices:**

Prior to the SEC's merit-pay system (yun-bong-je), Seniority based compensation system (ho-bong-je) was used. In seniority based system there was considerable pay difference between male and female and college and high school graduate. With increasing competition and internationalization of the company, such pay-system which automatically increases compensation over an interval of time was a burden on the company. Therefore the system was replaced by merit-pay system which rewards performance and proficiency. In merit-pay system the best employee secure a grade A or B in three assessments (one proficiency appraisal and two performance appraisal) receive an extra fixed pay increase apart from the basic salary. On the other hand employee

scoring low grade have to wait for another twelve months for performance and proficiency based pay – increase (Chang, 2012).

Another incentive scheme introduced by SEC mainly for research and development department was ‘core manpower incentive’ (TDI: target development incentive). This was introduced to motivate the employee to maintain high level of research in massively competitive environment. Later, the same scheme was implemented in marketing (MDI: Market Development Incentive), planning and administration (SDI: Strategy Development Incentive). These incentive are paid to employee who maintain high evaluation grades and make considerable contribution towards company development. SEC also encourages competition within the firm by offering collective compensation like productivity incentive (PI) which differs from division/individual based on the performance and profit sharing (PS) (Chang , 2012).

#### **5.2.5 Training and HRM development system:**

SEC gives high importance to employee education in defining company’s success. SEC CEO Lee supervises hiring talented people based on two principle “right people for right position” and “incentive compensation”. The company work on the philosophy of “Be the number one” (Yoo and Lee 1987). According to which SEC provide extensive training to people to develop themselves as potential leader of the future. In 1995 SEC modified the traditional HRM policy and implemented merit-pay system in which promotion and compensation depend on performance and competency to assure creativity and productivity at the same time lowering the labour cost of the organization. SEC is moving away from traditional Korean HRM practices as it has highest number of non-family member executive on top management position, compared to any other native company.

SEC is well known for its capable training program in which every new employee has to go through four week of extensive in-house training. The training focuses on transforming a graduate to ‘Samsung man’ (Kim 2007). The training program is similar to military training culture and provides employee information about history, values of the organization, technical aspect and general company policies. This help individual to understand the environment better and connect themselves with company’s visions. Specialized college graduate from different field participate in a one-year training program covering diverse business field, including onsite work assignments. SEC’s training program is designed carefully to make sure that employee capability is enhanced through-out the process (Chang, 2012).

To develop international outlook training is now compulsory for individual recently hired or already working at various level in SEC. Trainee are separated into different group according to rank and performance. Training provided at managerial level focus on developing brand loyalty and motivating people to achieve tough goals (Chang 2008). SEC provide training for employee at international level by ‘overseas regional specialist courses’ (table 2), the motive behind this course is to enhance international workforce, developing social capital by shaping personal ties while learning about local business environment and gaining specialized knowledge specific to a particular region and/or culture. Every year around 400 employees are sent overseas to become regional experts. Employees are inspired to participate in prestigious MBA course abroad to develop their current knowledge by learning business skills and strategies which may help the organization in long run (later explored in “Sending Insiders Out” section). ‘Twenty first century leadership courses’ was designed for higher level managers to develop leadership, solving complicated business problem and ability to think internationally. These courses focus on developing knowledge base according to current and changing business environment. The target here is to encourage executive to take measures for organizational reform. Employee are also given chance to travel abroad and observe Samsung performance first hand in (Lee 2006) other areas after their initial training.

It can be concluded that currently, Samsung’s training system is based on building leaders for the future and creating excellent corporate culture by providing employee with high quality education, training opportunities.

Table 2. Education system for each grade at SEC.

<i>Course</i>	<i>Job grade</i>	<i>Term</i>	<i>Note</i>
Overseas regional specialist course	–Assistant manager –Manager	1 year overseas	–Building international workforce –Shaping personal ties and bonds
MBA course	–Manager –General manager	2 years	Fostering employees’ insight into the current complex business environment
Twenty-first century CEO course	General manager	6 months	Fostering the leadership and international thinking faculty
	Executive	6 months	Awareness of the changing business environment

Source: SEC’s internal data.

## **Sending Insiders Out:**

SEC followed the Japanese imperial government practices to send elite officer overseas so that they can learn and bring innovative ideas inspired from other cultures. SEC acting similarly, send individual with high potential to Japan for advanced degree in engineering; United States for further education in management and ,marketing. After returning, these employees fill chief positions and utilize what they have learned for the growth of the organization Khanna, Song and, Lee, HBR July –Aug 2011. “Regional Specialist Program” is one of the remarkable steps SEC has taken for globalization. For past twenty year, SEC sends talent individual through a comprehensive 12 week language-training course after which they are sent abroad for one year. The first six month focus on adapting to the environment, establishing networks by making friends and examining the country. The next six months they carry out project of their own choice. In the beginning, employee were only send to developed countries but in the past 10 years, SEC is focusing more on emerging regions for example China, India and Africa Khanna, Song and, Lee, HBR July –Aug 2011.

After the training specialist come back at major posts at headquarter, or in business units home or abroad. Here they try to experiment with the successful foreign practices within SEC’s environment.

For example one of the first veterans was send to Thailand in 1990. He became fluent in Language and build social capital. He stayed there for MBA from one of the prominent Universities of Thailand. From his captivation he developed an understanding of country’s regulations and tax system. His close ties helped him to familiarize SEC’s TV, audio, and video products to Thailand’s aristocratic and to recruit a vice president of Hitachi to Samsung at a time when Hitachi was a Market leader and Samsung were practically unknown Khanna, Song and, Lee, HBR July –Aug 2011.

Another regional expert went to Indonesia and used his fluency of local language and social capital developed over time to establish a sales subsidiary. Additionally an expert who was sent to Bangalore in 2009 developed a project to aid rural community there and then applied the knowledge from this experience for the development of electronic products which Samsung can sell in these areas Khanna, Song and, Lee, HBR July –Aug 2011.

### **5.2.6) Firm’s organizational culture:**

When Byung-Chull Lee founded Samsung Group, he established the mission to ‘value human resources’. Since then the company is following the



same policy and as SEC is one of the affiliate of Samsung group, it has shared management technique and corporate culture of Samsung. Apart from the cultural values which SEC share with the other companies in the Samsung group, there are some policies which are exclusive to SEC; these unique policies define the growth of culture in the company beyond the boundaries of Samsung Group. One of these unique aspects has been its execution-oriented culture (Jeon and Han 1994). The reason behind the solitary behaviour of SEC is due to the continuous measures taken by Chairman Kun-Hee Lee for SEC in particular as it's the flagship company of the Samsung Group. Due to the success of SEC in global market, later the some of these cultural reforms were established in other affiliate of the Samsung Group as well. Therefore, the organizational culture of SEC is not at complete variance with other affiliate companies (Handbook Economic News 2002, p. 38).

The corporate philosophy of SEC is inspired by 'injaesang' (ideal image of HR) which comprise of core competencies such as creativity, professionalism, humanity and leadership. A new job interview method was designed and implement by SEC based on injaesang which focuses on assessing candidates on the basis of their personality and ability apart from the specialized knowledge they have learned. The satisfaction level of employee is considerably high in Samsung as compared to other Korean firm due to high compensation (compensations is at minimum 10% greater than any other company) and various welfare programs (Lee 2006). Another valuable feature of SEC's corporate culture is loyalty, with an emphasis on integrity and a can-do- spirit (Chang, 2012). SEC affirms corporate ethics, integrity; prohibiting personal profiteering or bribe taking. The company has also implemented ways to educate both new recruits and incumbent employee. The biggest challenge that SEC will face in future will be to conserve the strong sense of loyalty and organizational discipline among employee, which have been critical to its growth (Chang, 2012).

The long transformation of the company from a low-cost product company to a reputed quality brand has brought Samsung to a stable state rather than on top. To constantly move upward, the company need a higher level of diversity and decentralization in its hybrid model. The level of diversity is required so that SEC can become a Chinese company in china rather than a Korean company who does business in china. SEC needs to find new model and implement new practices to move further from its current strength. The effort which SEC would put to reach new heights is worth watching by competitors throughout the world.

## **6) Analysis and discussion**

### **6.1) Testing proposition 1a:**

SEC understands and accepts the relationship between human capital and opportunity identification. Currently SEC employs approximately 117,000 people in domestic and international offices. Out of the 66,000 employees working in South Korea, nearly 27,000 (41%) are working in research and development department. A strong R&D base has given an edge to the company, once known for selling low cost products SEC has replaced Sony to become one of the most innovative and dignified brand in the consumer electronics industry. SEC is now known for surprising people with a completely new product. The company has also registered for the highest number of U.S. patents every year— 16 000 in 2004 as compared to Intel (Lewis, Fortune Sep 2005).

The case is persistent with both the theories of opportunity identification. Firstly, the Japanese and Korean roots of founder Byung-Chull Lee and later of most of the high authorities of the company has given the company an fortuity to understand South Korean market, legislation system and Japanese companies, their policies and practices, this dual knowledge base helped SEC to feasibly understand and identify opportunity in the consumer electronics market Thus case supports literature concerning, if opportunities are created by individual based on information gained from past experience and understanding of current scenario (Schumpeter, 1934; Witt, 1998; Zahra, 2008) then they are better identified if individual have proper understanding of the current scenario (Kaish and Gilad, 1991; Shane, 2000, Gaglio, 1997) .

Secondly, the case also provide evidence to support opportunity identification theory of “alertness” by Kirzner (1973) with the opportunity SEC identified in the early 1990’s in the emerging digital technology market. The company which has always followed footsteps of Japanese companies like Sony or Hitachi took this step out of order to expend the company further using a technology which their competitor where unwilling to implement. Since then the company has tried to combine traditional approach of the Japanese companies with western practices which gave them a diverse view of the opportunity space.

Even though the case supports both the theories, SEC’s inclination is more towards part experience and understanding for opportunity identification and as human capital the central issue, the company focuses on determining ways to attract and retain highly talented individual especially scientists and

engineer to accomplish their core business necessities and goals. To attractive key players working in major companies to join SEC, high level sometimes even executive level positions are offered.

In conclusion, SEC associate human capital with opportunity identification and the evidence is consistent with [Proposition 1a](#) to cease that human capital contributes towards innovative performance of the firm.

## **6.2) Testing proposition 1b:**

SEC's human resources can be apportioned into conventional and unconventional human capital. SEC gives eminent emphasis on employee education for the growth of the company. Employee at SEC are highly educated holding either masters or doctoral degree. Recruitment process of the company is partially based on test of English proficiency, general knowledge, subjective and objective question to assess the learning from sources like education. Apart from the standard recruitment process, SEC also hire fresh university graduate through internship programs (currently internship program for students and graduates of European, Asian and South American countries). Other than recruitment, current employees are also inspired to participate in prestigious MBA courses and advanced engineering courses abroad. So that they can learn new practices and later implement them for the benefit of the company. The evidence provided with the case is consistent with the literature in terms of importance of specific human capital over general human capital (Kang, Snell, 2009 and Shane, 2000). The Founder and Chairman of SEC spend a considerable amount of his time in Japan which dominated the consumer electronics market at that time. He learned about various Japanese companies and their practices and later implemented these practices in the hybrid model of the company. While recruiting, excluding general knowledge based on past education, individual are also evaluated on their personality, ability and specialized knowledge in required field. To be a part of SEC every individual have to clear Samsung Aptitude Test (SAT) to check competency of the employee with the company. SEC also concentrates and invests more specific human capital in terms of various training programs provided for employee at various levels. Every new employee has to go through extensive- in house training of four months. The training focuses on transforming graduate to Samsung employee (Kim 2007).The training program targets on providing employee information about company's history, technical aspect, general company policies and values and culture of organization. Every non-Korean employee has to spend first few months in the advisory capacity to understand their culture and colleague before taking their positions. The training provided to develop specific human capital is not only to expend firm specific human capital but also to essentially develop entrepreneurship specific human capital

has well. Specialized graduate from various fields take part in one year training program covering different business fields and onsite work assignments. “Regional specialist programs” train employee at international level to first develop social capital by shaping personal ties while learning about local business environment and gaining specialized knowledge specific to a particular region and/or culture and the later develop and build project of their own choice in specific regions. The compensation system of the company (merit-pay) also keeps creativity and productivity of individual as the centre before providing incentive.

The case is consistent with the literature regarding the importance of both general and specific human capital and how specific human capital is of considerable importance for opportunity identification in internal and external environment (Shane, 2000). On the other hand, the case is inconsistent with the literature in terms of balance between firm specific human capital and entrepreneurship specific human capital (Hughes and Ucbasaran, 2010). The company focuses more on the development of firm specific human capital. Training program within SEC are compulsory for each employee irrespective of the position, company’s ideology behind this is to develop and renew specific human capital, but at the same time tie people to the organization so that it is hard for them to leave the organization. On the contrary only few talented employees are given chance to go abroad, run their own projects or participate in events like “regional specialist program” which are the key sources to develop entrepreneurship specific human capital. The grading system of SEC is also inclined towards managers (people at chief position who are more likely to take entrepreneurial based decisions) in terms of position and responsibility (Chang, 2012) leaving the rest of the staff to follow behind those people.

To summarize, the case does not support [preposition 1b](#) in terms of the balance required in the firm between entrepreneurship specific human capital and firm specific human capital for opportunity identification.

### **6.3) Testing preposition 2:**

Both intrinsic and extrinsic compensation practices are used in SEC to reward people for their performance and proficiency. The current merit-pay compensation system grade individual on the basis of: one proficiency appraisal and two performance appraisals. The employee receiving grade of A or B receive extra pay raise on the other hand employee scoring lower grade have to wait one year for salary increment.

Apart from the merit-pay system which is implemented throughout the company. SEC also keeps introducing schemes for Research and development,

marketing and planning and administration department so that the employee have initiative to work extra hard as they are the strength of the company. Also, in order to encourage team work and competition the firm offers collective compensation like productivity incentive (PI) which is distinguished on the basis of performance and profit sharing for individual or/and division.

Apart from extrinsic rewards, the company also offer intrinsic rewards like promotion to motivate employee towards working hard. The grading system is more like a pyramid structure, the movement upwards earlier was slow but later traditional system was modified for the fast movement of talented employee. Currently at SEC two different systems are used for promotion of managers and staff. Promotion of staff is done on the basis of factors like job performance evaluation, length of job. On the contrary the promotion system of managers is more ability oriented and it is done on the basis of recommendations, awards, past experiences (Pucik and Lim 2001).

Assessment for promotion and compensation is done throughout the year at different level with the opinion of supervisor, subordinate and colleague. But the first two year are dedicated completely for training with no assessment. Therefore the evidence provided with the case is uniform with the literature seconding both the theories of Balkin et al., 2000; Chandler et al., 2000 which support the importance of both intrinsic and extrinsic compensation system for employee to behave entrepreneurially by maintaining a balance between both the compensation method and Morris et al., 2008; Ireland et al., 2009 theory of long term compensation by designing incentive schemes based on yearly basis.

Training is provided for both new and incumbent employee of SEC at different level on the basis of rank and performance. These training programs are designed to motive employee by reminding them organizational values and goals to develop loyalty, at the same time making outsiders aware of the culture and traditions of the company this help individual to accept the environment better and connect themselves with company's visions. The evidence in the case agrees with the literature regarding freedom provided to take decisions (Burgelman, 1983; Lumpkin and Dess, 1996) facilitate opportunity identification and help individual to perform more efficiently (Hayton, 2005; Luchsinger and Bagby, 1987). Talented individual are given a chance to execute project of their own choice at home or international office. The motive behind this is to develop entrepreneurial attitude but at the same time develop social capital which can be later useful for the company.

Even though the case agrees with the literature in terms of compensation, freedom provided to employee to take decisions, motivation and developing entrepreneurial attitude enough evidence is not provided to support other practices like risk taking attitude (Burgelman, 1983; Stopford and Baden-Fuller, 1994), resource availability (Kuratko et al., 2005) for developing the internal environment. The data provided for social capital development (Hayton, 2005) is inconsistent with the literature due to cultural and language barrier existing in the organization which the literature didn't take in account. In SEC it is hard for any individual to survive without proper language training and organizational understanding. Even though the company is taking steps to bring more outsiders in and help them to overcome the barrier of acceptance within the company, which is hard due to existing prejudice and negative attitude towards outsiders. Due to these weaknesses, exchange of knowledge and skills within the company is laborious as SEC relay heavily on knowledge from external sources and training for every employee. The lack of social capital within the company hinders the exchange of knowledge and skills.

Thus, the case is uniform with [preposition 2](#) concerning how structure and processes within firm moderate human capital and opportunity identification. Further research in this area is required considering the impact of cultural and traditional structures on organizational system and practices.

#### **6.4) Testing preposition 3 and 4 :**

The Entrepreneurial Orientation and reciprocity of relation between human capital and opportunity identification of SEC can be analysed in form of a timeline. 1) The awareness of current scenario and learning from Japanese companies led to the formation of Samsung group by Byung-Chull Lee. When SEC was formed, it mainly manufactures low cost, conventional store products. 2) In early 1990's company's attitude towards welcoming innovation helped it to experiment with the digital technology while the competitors were still working with analog technology. This was a breakthrough and helped the company to move one step forward from its competitor and big players in the consumer electronics market. 3) In order to improve company's performance and remove the tag of cheap, low quality products, SEC implemented hybrid model in 1993 to integrate western practices with Japanese model of the company. Learning from this resulted in modification of current practices on various levels (for example: replacement of seniority based system by merit pay system.). 4) SEC was initially very traditional in terms of hiring employee of only Korean ancestry is now trying to globalize the recruitment process by accepting application from different countries , background and initiating international internship program to attract talent from different companies. 5) Started sending adroit employee is send to various foreign countries to gain

education in various fields for example: engineering, design and management. 6) Organizing training program provided at various level to develop international outlook and understanding of the current environment and then later implement learning. 7) Now company is known for high quality product targeting elite market with continuous research on technology and high number of patents.

The evidence provided with the case is consistent with the literature concerning the dynamic nature of opportunity identification and learning for human capital development (Dess et al., 2003). Entrepreneurial experience is acquired by individual through learning and experience gained which they later implement to identify more opportunities (McCauley et al., 1994) in domestic and international market. Even though the evidence provided is consistent with Lumpkin and Dess, 1996; Miller, 1983 conception of EO and Hamel and Prahalad, 1989 analysis of positive relation between EO and opportunity identification, major stress has been towards learning from sources in the external environment. Enough evidence is not provided where individual of SEC are given opportunity to behave entrepreneurially within organization and developing human capital from each other and forming information hierarchies in the organization. Therefore the evidence does shed light on the existence of EO “for the company” but not for “in the company”. Similarly demonstration of learning from opportunity identification and exploitation is supported by argument which highlights ties developed in external environment or learning from resources in external environment, negligible evidence is provided which demonstrate developing knowledge and skills from experience of others in the organization.

In brief, the evidence provided in the case is consistent with [proposition 3](#) in terms of importance of experience for opportunity identification but enough evidence is not provided to support [proposition 2](#) in terms of explaining the existence and influence of EO in the organization.

### **6.5) Testing proposition 5:**

The motivation and quality of learning for SEC can be analysed on the basis of two factors 1) external environment (competitors, events) 2) internal environment (structures and processes).

When Samsung group was launched it was a fruit and sundry-good Export Company in South Korea. But later the group reinvented themselves and launched SEC which is now considered the most innovative brand in the consumer electronics industry. The catalyst of launching SEC was the Japanese roots of the company. The founder of SEC had his education in Japan which was dominating the consumer electronics market, which gave him a good

understanding of the market and later inspired him to launch SEC. Consumer electronics industry, is ruled by technological changes in the market. SEC was aware of this and they sensed the shift from analog technology towards digital technology which gave them a competitive advantage over major companies who were reluctant to come out of the comfort zone and adopt new technology. Meanwhile the company realized that the Japanese model of the company is not appropriate in long run especially in international market. To overcome this glitch they combined the Japanese model with western practices. This worked well for SEC and the performance has remarkably improved; now SEC has replaced Sony to become world's leading consumer electronics company. The company still follow the hybrid model integrating new practices which they learn from their competitors and customers throughout the world.

The structure and processes of SEC where influenced by the cultural and traditional values of South Korea. Due to the prejudiced culture of SEC, for almost two decades the only outsider the company hired were of Korean ancestry. As SEC was working at international level, to understand more about overseas market and to have a diverse work force, people were hired from different countries working for prestigious organizations like Intel. Internship program where also organized to hire specialized graduates throughout the world. To motivate current employee to perform better grading system of the company was modified so that the existing minimum number of year for each grade was altered to average number of employment years, which increased the opportunity of early promotion for talented employee. The promotion system is more inclined towards past experiences, recommendation, awards, contribution rather than number of years worked. Constant assessment of individual is done and feedback and recommendation are provided on the basis of information collected from supervisor, subordinate and colleague. This facilitates fast upward movement of talented individual. The compensation system also takes performance and competency in account and incentive are provided on the basis of that. To inspire people especially researchers and designers to be more innovative, special incentive schemes are provided for the specific departments. Apart from this employee are drawn towards various domestic and overseas training programs to learn and develop human capital and later use these tools for company's benefit.

Overall, the evidence provided in the case is consistent with the literature in terms of external (learning and motivation from past failure, competition, customer and technological changes) and internal (learning and motivation from education, training, active learning, appraisal and compensation systems) environment practices (Hughes and Ucbasaran, 2010). But enough evidence has not been provided to elaborate how team work in SEC facilitates learning (Argyris and Schön, 1978; Crossan et al., 1999), which has been the focal point of the literature. Negligible evidence is provided to explain how knowledge is



conveyed throughout the organization (Crossan et al., 1999; Zahra, Nielsen and Bogner, 1999). This gap can be filled by the theory of Galunic and Rodan, 1998; Haas and Hansen, 2005 which suggested that not all the practices have to be implemented and might not help to motivate employee and improve the quality of learning as tacit knowledge is difficult to duplicate.

Therefore, the evidence in the case is homogeneous with the [preposition 5](#) regarding the importance of organizational mechanism to motivate learning and improving quality of learning for a positive impact on human capital development and corporate opportunity identification.

### **6.6) Testing Preposition 6 and 7:**

SEC functions in consumer electronics market. The industry is demanding in terms of technology and design. The risk involved is very high as the response is unpredictable for every product and chances are there that the product or technology might not be accepted, SEC understand this and they try to attract key players working in major companies to join SEC, high level sometimes even executive level positions are offered. The assessment for major compensation offered in form of promotion and incentive is done on individual basis for SEC. Promotion system is more inclined towards ability-oriented activities as the risk associated with the industry and innovation requirement of the industry is high. Promotion is given on the basis of performance and past experience.

The merit-pay compensation system evaluates every employee based on their performance and proficiency throughout the year, contribution towards innovation and firm's performance is important criteria of evaluation. The effect of performance and proficiency assessment has a high impact on career development and success (Pucik and Lim 2001). Employees which fail to contribute have to wait another year and they have to go through the assessment process again.

The evidence provided in the case is consistent with Hayton, 2005 who suggested that compensation system should be designed on individual basis and incentive should be directed towards innovation rather than outcome, primary incentive offered in SEC are individual basis and performance valuation is done throughout the year rather than on the outcome provided. The case also highlighted the requirement of high compensation for high risk and high knowledge industries, seconding the concept given in literature by Balkin, Gomez-Mejia; 1984 and Laursen 2002. The case also support the dependence of compensation offered on external and internal environment activities Balkin & Gomez-Mejia, 1984, 1987; Hayton, 2005.

Therefore the evidence provided with the case is consistent with [proposition 6](#) and [proposition 7](#), highlighting a need of further study in this area based on organizational and cultural differences to get a better insight.

## **7) Conclusion**

The paper has two aims, first to analyse and contribute to the theoretical framework given by Hughes and Ucbasaran (2010) of corporate opportunity identification from a human capital prospective. And second to further explore the framework from a case study prospective. Examining the theoretical concept was necessary as human capital is now considered as important contributor towards corporate entrepreneurship. And developing a better understanding of the concept was indispensable. Therefore a comprehensive presentation of distinct features extending the literature was fundamental as no such inclusive review exist. From a critical prospective, it appears that certain conclusion based on human capital development can be further extended to include some important points which were left out in current framework, which will help in developing a better understanding of the topic. Further, to analyse the propositions suggested by literature, case study of SEC was used. And information provided in the case study was compared against the key word in the literature to review the consistency/inconsistency of literature against the facts provided in the case study. The case allows evaluation of various concept of human capital from corporate opportunity identification prospective. It is apparent that SEC considers human capital development as an important factor for entrepreneurial behaviour such as opportunity identification and exploitation. Company policies and practices has provided significant insight towards assessing phenomenon stated by the literature which help to further examine and extend the theory.

## **8) Limitations and further research**

Even though the case study is based on multiple outlooks and events, there are various limitations associated with it. Firstly qualitative method of data collection was used where data was collected from secondary sources which constraints the analysis, as different researcher have distinct prospective and they can potentially derive different conclusions for same set of information. In addition, another weakness of the methodology is centralizing the whole work around single company in single industry. Even though case study approach facilitates in-depth analysis of the focused company, it restrains from deriving any generalized conclusions. Furthermore, the work highlights and elaborate the concept of human capital and corporate opportunity

identification by Hughes and Ucbasaran(2010) but the framework provided is not comprehensive enough to explore cultural and traditional aspects and their influence on human capital management.

Further research in this field should empirically assess if and how cultural and traditions factors moderate human capital management in internal and external environment and how internal environment practices affect human capital management and formation. Although past studies largely associate human capital with social capital development it largely ignore the problem arising in information exchange due to traditional values of an organization, the evidence provided here suggested that due to increasing internationalization in the major companies the problem of cultural and language differences dominate which hinders formation of information hierarchies as employee from different background have to work together. It is therefore essential to consider these factors in human capital study and understand their effect in various circumstances in internal and external environment. This will help towards comprehending the influence of human capital on opportunity identification.

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