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Corporate Entrepreneurship: insights on board of directors and major shareholder contributions

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Introduction

Corporate Entrepreneurship is important for company's profitability and growth. Corporate Entrepreneurship refers to the activities a firm undertakes to stimulate innovation and encourage calculated risk taking throughout its operations (Zahra, Filatotchev and Wright, 2009). Given its potential contributions, scholars have identified various factors that promote Corporate Entrepreneurship. Among the most important of these factors is board support of Corporate Entrepreneurship (Zahra 1996; Zahra *et al.*, 2000, 2009). Despite its relevance, prior studies have produced partial results by focusing only on the monitoring and control functions of boards (Keasey and Wright, 1993; Beuselinck and Manigart, 2007; Scholes *et al.*, 2007). A board of directors has also an entrepreneurial function in guiding managers to increase shareholders' wealth (Zahra and Pearce 1989; Filatotchev and Wright 2005; Uhlaner *et al.*, 2007; Brunninge *et al.*, 2007; Zahra *et al.*, 2009). A board can create new wealth by ensuring that managers develop and pursue a viable strategy, working with them to identify viable opportunities for growth and promoting attention to Corporate Entrepreneurship (Zahra *et al.*, 2009).

In this dissertation we propose to understand the elements that affect both board functions and their impact on Corporate Entrepreneurship. We highlight two key variables that influence boards' entrepreneurial function and their involvement in Corporate Entrepreneurship: board attributes and major shareholder type. To investigate how these elements draws on role of board and Corporate Entrepreneurship we apply agency theory, resource dependence theory and social network theory.

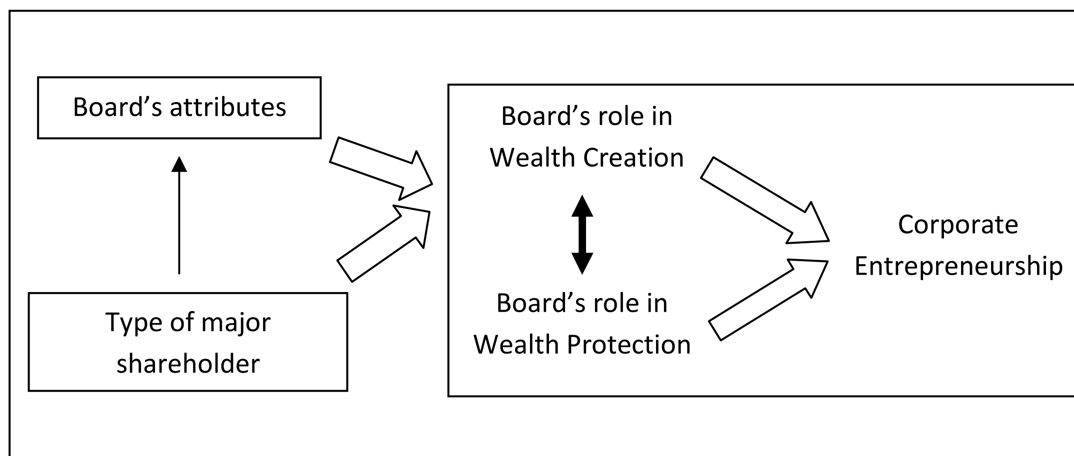
Board attributes include composition, characteristics, structure and process. Board composition refers to the size of board and the mix of inside and outside directors. Characteristics consist of directors' background. and reflect the age, educational background, value and experience of directors. Board structure covers the number and types of committees, committee membership, the flow of information among these committees and board leadership. Process signifies the approach that boards take in making their decision and involves the frequency and

length of meetings, CEO-board interface, the formality of board proceedings and the extent to which boards evaluate themselves. All these influence the entrepreneurial and monitoring roles of boards. Some boards may not always do a good job in performing both roles and may suffer from poor board structure, inappropriate composition or wrong processes (Zahra and Pearce, 1989). Prior studies have investigated how board composition influences Corporate Entrepreneurship (Zahra, 1996; Zahra *et al*., 2000). Less attention has been given to evaluating the impact of characteristics, structure and process. However, researchers suggest that having a board with the right mix of skills and connections can improve Corporate Entrepreneurship activity (Zahra *et al.,* 2009). Researchers have also suggested that committees, flow of information and frequent meetings can improve the involvement of boards in strategic decision making (Zahra and Pearce, 1989). We propose to investigate how all these attributes influence the role of boards in sustaining Corporate Entrepreneurship.

Major shareholder type (La Porta *et al.,* 1999) affects Corporate Entrepreneurship (Jensen and Meckling, 1976; Zahra, 1996; Zahra *et al*., 2000; Munari *et al*., 2010). Agency theorists propose that large investors have a major incentive to monitor CEO decisions and commitments to Corporate Entrepreneurship (Bird and Wiersema, 1996). Further, social network theory suggests that board composition reflects the social network of the principal stakeholder (Lynall *et al*., 2003). Therefore there is a strong relationship between the mayor shareholder and the board's role (Uhlaner *et al*., 2007). Scholars have focused on the relationship between institutional stock ownership and Corporate Entrepreneurship (Zahra, 1996; Zahra *et al*., 2000) and on the relationship between family or state ownership and the level of a firm's R&D investments (Munari *et al*., 2010). However, the results of these studies are contradictory. In this work we would understand how different types of major shareholders may influence the entrepreneurial and monitoring functions of boards and their impact on Corporate Entrepreneurship.

The following figure (Figure 1) summarizes the framework that has driven our research on board attributes, major shareholders and Corporate Entrepreneurship.

Figure 1. The research framework



In an attempt to analyze the influence of board attributes and major shareholders on board role in Corporate Entrepreneurship, we have structured our work as follows. In the first chapter we introduce the concept of Corporate Entrepreneurship and we describe the attributes and elements that characterize the phenomenon. In particular, we felt the need to first investigate the historical origin of the meaning of Corporate Entrepreneurship. After recognizing the field of Corporate Entrepreneurship as the link between entrepreneurship research and corporate management, we discuss the main traits of Corporate Entrepreneurship and the process through which a firm can nurture the level of entrepreneurship. We then focus on the "firm actors" that can contribute to the diffusion of entrepreneurship within the firm. After a brief literature review on employees, middle managers and top management contributions to Corporate Entrepreneurship activities, we focus our attention on the true research interest of this work: the investigation of *how board attributes and major shareholders can influence a board's role in Corporate Entrepreneurship.* Thus, the second and third chapters concern the literature review of this specific stream of research and the attempt to explain the causal link that binds these elements. In particular, we focus on each category of board attributes (composition, characteristics, structure

and process) and on the three different types of major shareholder (family, other corporation and state).

Finally, we attempt to support our discussion with empirical evidence, using a multiple case studies method. Thus, we have selected four different firms, with which we have conducted interviews. We have also collected data from these companies' websites and from public reports. The analysis of the data collected provides empirical evidence that supports our thesis. In particular, case study analysis suggests that different major shareholders influence boards' role in Corporate Entrepreneurship, particularly because different major shareholders correspond to different board attributes.

Chapter 1. Corporate Entrepreneurship: concepts and theories

1.1. The concept of Corporate Entrepreneurship: an introduction

In recent years, the entrepreneurial capabilities (Penrose, 1959) of corporate organizations have become a very important topic of discussion both among practitioners and academicians (Sharma and Chrisman, 1999). Several researchers have suggested that the entrepreneurial attitudes of risk taking, innovativeness and proactiveness (Miller, 1983) can be applied to the corporate process as well as to new independent ventures (Covin and Slevin, 1991). For this reason, several authors have proposed to use the term "**Corporate Entrepreneurship**" to indicate entrepreneurial behavior and the pursuit of entrepreneurial opportunities by existing firms (Burgelman, 1983a, b; Stevenson and Jarillo, 1990; Zahra, 1993). Corporate Entrepreneurship may sound like a contradiction in terms (Phan *et al.*, 2009); however, the main traits generally associated with entrepreneurship - as growth, profitability and innovation - are also desirable for large corporations (Stevenson and Jarillo, 1990). Researchers' increasing interest in this field in recent years has produced a great deal of literature that attempts to explain entrepreneurial activity in existing firms. Authors have used terms such as "corporate venturing" (Biggadike, 1979), "intrepreneuring" (Pinchot, 1985), "internal entrepreneurship" (Vesper, 1984), "strategic renewal" (Guth and Ginsberg, 1990) to describe the development of new business within established firms and the renewal of the key ideas on which organizations are built (Table 1). Considering the definitions used in the literature as described in Table 1 we can observe that many researchers use different terms to explain the same phenomenon. Following Sharma and Chrisman (1999) we consider that the concept of Corporate Entrepreneurship encompasses many phenomena that prior authors have considered separate. In particular, following these authors, we define ***Corporate Entrepreneurship as the process whereby an individual or a group of***

individuals, in association with an existing organization, create a new business or originate a strategic renewal or an innovation within that organization.

Table 1. Existing definitions

Authors	Definitions of Corporate Entrepreneurship
Burgelman (1983)	Corporate entrepreneurship refers to the process whereby the firms engage in diversification through internal development. Such diversification requires new resource combinations lo extend the firm's activities in areas unrelated, or marginally related, to its current domain of competence and corresponding opportunity set (p. 1349).
Covin & Sievin (1991)	Corporate entrepreneurship involves extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations (p. 7. quoting Burgelman, 1984. p. 154).
Guth & Ginsberg (1990)	Corporate entrepreneurship encompasses two types of phenomena and the processes surrounding them: (1) the birth of new businesses within existing organizations, i.e.. internal innovation or venturing; and (2) the transformation of organizations through renewal of the key ideas on which they are built, i.e. strategic renewal (p. 5).
Zahra (1995; 1996)	Corporate entrepreneurship — the sum of a company's innovation, renewal, and venturing efforts. Innovation involves creating and introducing products, production processes, and organizational systems. Renewal means revitalizing the company's operations by changing the scope of its business, its competitive approaches or both. It also means building or acquiring new capabilities and then creatively leveraging them to add value for shareholders. Venturing means that the firm will enter new businesses by expanding operations in existing or new markets (1995, p. 227; 1996, p.l715).
	Definition of corporate venturing
Block & MacMillan (1993)	A project is a Corporate venture when it (a) involves an activity new to the organization, (b) is initiated or conducted internally, (c) involves significantly higher risk of failure or large losses than the organization's ba.se business, (d) is characterized by greater uncertainty than the base business, (e) will be managed separately at some time during its life, (f) is undertaken for the purpose of increasing sales, profit, productivity, or quality (p, 14).
Ellis & Taylor (1987)	Corporate venturing was postulated to pursue a strategy of

	un-relatedness to present activities, to adopt the structure of an independent unit and to involve a process of assembling and configuring novel resources (p, 528).
	Definition of intrepreneuring
Nielson, Peters, & Hisrich (1985) Pinchot III (1985)	Intrapreneurship is the development within a large organization of internal markets and relatively small and independent units designed to create, internally test-market, and expand improved and/or innovative staff services, technologies or methods within the organization. This is different from the large organization entrepreneurship/venture units whose purpose is to develop profitable positions in external markets (p. 181). Intrapreneurs are any of the "dreamers who do." Those who take hands-on responsibility for creating innovation of any kind within an organization. They may be the creators or inventors but are always ihe dreamers who figure out how to tum an idea into a profitable reality (p. ix).
	Definition of strategic renewal
Guth& Ginsburg (1990) Zahra (1993, 1995, 1996)	Strategic renewal involves the creation of new wealth through new combinations of resources (p. 6). Renewal means revitalizing a company's business through innovation and changing its competitive profile. It means revitalizing the company's operations by changing ihe scope of its business, its competitive approaches or both. II also means building or acquiring new capabilities and then creatively leveraging them to add value for shareholders. (1995, p. 227; 1996, p. 1715). Renewal has many facets, including the redefinition of the business concept, reorganization and the introduction of system-wide changes for innovation ... . Renewal is achieved through the redefinition of a firm's mission through the creative redeployment of resources, leading to new combinations of products and technologies (1993, p, 321),

Source: Our elaboration based on Sharma and Chrisman (1999)

It may be that the existence of different streams of research and ambiguity in the definition of Corporate Entrepreneurship are the result of the process through which this field was born and developed. Indeed we maintain that Corporate Entrepreneurship represents the linkage between entrepreneurship and corporate management research (Stevenson and Jarillo, 1990). In the next session,

before entering into the heart of the Corporate Entrepreneurship field, we try to briefly investigate the existence of this link and explain how in this historical period the construct of Corporate Entrepreneurship can be appropriate to explain the survival and growth of firms (Covin and Slevin, 1991; Drucker, 1985; Lumpkin and Dess, 1996; Miller, 1983; Zahra, 1993; Zahra *et al.*, 2009).

1.1.1. Corporate Entrepreneurship as the link among entrepreneurship theory and corporate management[1]

Studies on entrepreneurship have a long history, particularly because they are very close to the theory of economic growth and to the development of capitalism[2].

The first economist to ascribe to the entrepreneur the main role in the development of economic society was Richard Cantillon (1680-1734)[3]. He argued that the organizer of production is neither the owner of a firm nor the people that provides work, but rather the entrepreneur. He described the entrepreneur as the "creator," the "starter" with an uncertain income[4]. After him, Say (1767-1832) resumed the discussion about entrepreneurship[5]. In the hundred years that separate Cantillon and Say we find the development of the English economics policy school. Smith (1723-1790)[6] and Ricardo (1772-1823)[7], the main economists of

[1] In this section we will make only brief mentions no claim to comprehensively deepen the doctrinal evolution of a theme so vast.

[2] Cft. Berta, *L'imprenditore*, Venezia, Marsilio Editori, 2004.

[3] Cft. Luigi Enaudi, *Introduzione*, a Richard Cantillon, *Saggio sulla natura del commercio in generale* [1755], a cura di Sergio Cotta e Antonio Giolitti, Torino, Enaudi, 1974.

[4] Schumpeter write: "Cantillon had a clear conception of the function of entrepreneur. It was quite general, but he analyzed it with particular care for the case of the farmer. The farmer pays out contractual incomes, which are therefore "certain", to landlords and labors; he sell at price that are "uncertain". So do drapers and other "merchants": they all commit themselves to certain payments in expectation of uncertain receipts and are therefore risk-bearing directors of production and trade, competition tending to reduce their remuneration to the normal value of their service". Schumpeter, *History of economic analysis*, New York, Oxford University Press, 1954, cit. page 222.

[5] "J.B. Say, moving along in the French tradition, was the first to assign to the entrepreneur a definite position in the schema of economic process. His contribution is summed up in the pithy statement that the entrepreneur's function is to combine the factors of production in to a producing organism". Schumpeter, *History of economic analysis*, New York, Oxford University Press, 1954, cit. page 555.

[6] Smith focused on the capital as the decisive element in economic development. He argued that the function of entrepreneur was conflated with that of the capitalist. He viewed the profit that

this school, focused their attention on the availability of capital, denying any role for the economic agent or the entrepreneur. In the books "*The wealth of nations*" (Smith, 1776) and "*Principles*" (Ricardo, 1817), we find the *manufacturer*, the *employer*, the *undertaker*, and the *projector*, but when authors introduce a strong economic role they still refer to the capitalist[8]. The perspective of economic policy is that firms require mainly capital to survive and grow. The governance of the firm is a job like any other (Marx, 1818-1883), and the profit that a firm produces is a surplus for its employees. Marx, in his book "*Capital*", argues that the capitalist takes part of the surplus distribution because he has worked in the firm, not because he is a capitalist (1867). The economic policy that was developed in Grain Britain particularly lacks any form of subjectivism, and the personal characteristics of individuals are not related to the firm development.

A different perspective was developed in Continental Europe. The Frenchman Say and the Italian Gioja (1767-1829) agree that the success of industrial firms depends on the entrepreneurial ability of the main agent of production[9]. The entrepreneur may be endowed with the capabilities of judgment, perseverance and firmness, and may be able to dominate every step of the production process. These authors, in contrast to English researchers, focus their attention on the subjective characteristics of the people who may govern firms.

Actually, at the middle of '800, even in the UK some economists have introduced a debate on the entrepreneur, based on the concept that for the

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accrues to the entrepreneur not as a form of wage arising from the execution of directorial duties, but as the consequence of the level of the investment made.

[7] Ricardo ignored the notion of entrepreneurial elements in his writings. He expounded the basic tenants of the capitalist system, describing the effect of market forces on capital. Ricardo (1962, pages 112-4) argued that the role of a capitalist is prominent in the working of economy, in the sense that a capitalist moves his capital to new sources of production in response to external changes in the environment, such as trade opportunities, shift in market demand, or the distressed produced in an economy after a protracted period of war.

[8] "The role of manufacturer is to invest his capital in the business according to the demand of his products. If demand falls off then he may dismiss some of his workman and cease to borrow from the bankers and moneyed man. The reverse will be the case where the demand increase," Ricardo (1962), *The Principles of Economy and Taxations*, cit. page 49. The word undertaker, employer, projector were used interchangeably with the term entrepreneur in the sense of an adventurer being some who seeks occasion of hazard and puts himself in the hand of chance.

[9] See J.B. Say (1803), "A Treatise on Political Economy" and M. Gioja (1815-1819), "Nuovo prospetto delle scienze economiche," (1819), "Sulle manifatture nazionali," and (1822) "L'ideologia."

generation of a surplus both capital and the knowledge that people have accumulated in their careers are important. The first contribution on this topic is Mill's (1806-1873)[10] position about profit. Mill argues that profit must be separated into three different categories. The first is the remuneration for the abstinence that the capitalist bears; the second is the remuneration for risk-taking, and the third is the remuneration for work done and for the capability of supervision. The difference between remuneration for abstinence and profit is the recompense for the entrepreneur. Mill bemoans the lack of an appropriate term in English; he uses the term *undertaker* to designate a person who shares the risk of the firm as well as the trouble of business.

However, is with the approach of Bagehot that the businessman, the entrepreneur, receives due focus. The author argues that the entrepreneur became the "motive power in the modern production"[11] because he must decide which goods should be produced and marketed. Bagehot's entrepreneur works as a general: he plans the operations, organizes funds and supervises production. This relatively new position on entrepreneurship is actually a consequence of the increasing complexity of business in recent years. The author believes that this complexity requires the leadership of a single businessman characterized by the power of decision. Thus, Bagehot becomes one of the major exponents of the new perspective of economic policy, in which the single nature of each economic actor involved is considered as an important variable in understanding the science of business.

The evolution of economic policy thought from the simple figure of the capitalist to the complex role of the entrepreneur suggests how each economic theory is closely connected to the economic sociology of the period in which each author lived[12]. When businesses were relatively simple and a firm was a enterprise that belonged to a single person who provided capital, the role of the capitalist was sufficient to account for the administration of all resources involved. With the

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[10] See J.S.Mills, (1848). "Principles of Political Economy."

[11] Walter Bagehot, *Economics Studies*, in *The Collected Works of Walter Bagehot*, a cura di Norman St. Jonh Stevas, vol. XI, London, The Economist, 1978

[12] Angelo Pagani, *La formazione dell'imprenditorialità,* Volume 22 di studi e ricerche di Scienze Sociali, Edizioni di Comunità, 1964.

increasing complexity and size of the firms and the introduction of different forms of corporate governance, new figures and roles were required. The entrepreneur model of Say and Bagehot is only an example. Successive authors have discussed entrepreneurial function and about which figures within a firm would be able to fulfill this role.

To this end, we like to mention the contributions of Marshall (1842-1924) and Sombart (1863-1941). Marshall wrote that the employer (the entrepreneur) "is the mastermind of the whole"[13]. He is responsible for decision making about what kinds of job have to be done, how, and by whom. Marshall acknowledges that, over time, entrepreneurial function has become more complex. This increasing complexity has led to the delegation of entrepreneurial activity to other firm employees. Marshall recognizes in the manager the figure most suitable engineering firm activities. He places both the entrepreneur and the managers at the heart of the economics system, and identifies a number of figures that assist the "employer" in his decision making and engineering activities. Thus these authors were among the first to note the increasing separation between governance and control, and introduced the role of management in entrepreneurial activity to bridge this gap.

After Marshall, Sombart considered the separation between entrepreneurial function and "capitalist property," which is a natural consequence of the evolution from individual firms to public companies. Sombart acknowledges that the capitalist is not always the figure on which the future of the firm depends. Indeed, to explain entrepreneurial function, Sombart identifies three different roles that the modern captain of industry must carry out. Each figure corresponds to an ideal character that is important for entrepreneurial activity, because in Sombart's thinking, not all people have the characteristics to become entrepreneurs. These are (i) the entrepreneur-expert (ii) the entrepreneur-merchant (iii) and the entrepreneur-financier[14]. The entrepreneur of Sombart's time is often a

[13] Marshall, *The economics of industry*, London, Macmillan and Co., 1879, p.51.

[14] W. Sombart wrote, "We may distinguish among them three different types: the expert, the merchant or the business man, and the financier. The expert centers his interest in his particular product. He is definitely tied down to a single branch of production, as is seen most clearly in the case of entrepreneur who is also a technical inventor. The inventor-entrepreneur aims to bring

combination of two of these types. The particular combination depends on the different opportunities that different branches of business offer. For example, Sombart write, "Industries requiring great mechanical precision in the manufacturing process are fertile soil for the expert; the merchant thrives in industries dominated by mass production; and the financier exploits such opportunities as the promotion of new railways.[15]" With Sombart we assist at an integration of function and a democratization of the functions of command. The "old single capitalist/entrepreneur" does not accurately represent modern entrepreneurial activity and does not explain who, really, decides within an organization.

Additionally Schumpeter (1883-1950), one of the most important researchers in the entrepreneurship field and the author of "*The Theory of Economic Development*" (1961), recognized the ideal type of entrepreneur in the captain of industry. Schumpeter's entrepreneur is completely different from all other capitalists. He exalts his individual qualities and personal characteristics. This, along with his behavior, breaks the equilibrium of the market. The entrepreneur has the function to carry out new combinations[16]. The position that such people have in a company does not matter: he could be a manger, a member of the board of directors, or a simple employee. And as it is the carrying out of

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about widespread adoption of his invention by producing on as large a scale as possible. The merchant's starting point is the market demand; he is determined to supply the products which he considers most saleable. Anticipating future demand, which he stimulates with cleaver propaganda, the ideal merchant creates wants and proceeds to supply the means for their satisfaction. The financier's important activity is the creation and accumulation of capital by technical manipulation in the stock market. His appropriate milieu is the capital market and his creative powers are expressed in the promotion of new companies or mergers, holding companies and other financial aggregations." *Economic Life in the modern age*, Transaction Publishers, 2001, page 20.

[15] W. Sombart, *Economic life in the modern age*, Transaction Publishers, 2001, page 21.

[16] "The concept covers the following five cases: (1) The introduction of new good […] or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new […]. (3) The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods […]. (5) the carrying out of a new organization of any industry, like the creation of a monopoly position[…] or the breaking up of a monopoly position." Schumpeter, *The Theory of Economic Development*, New York, Oxford University Press, 1961, page 66.

new combinations that defines the entrepreneur, it is not necessary for him to be permanently connected with an individual firm. Thus, the requirements of property and membership fail, as does the risk component. "Risk obviously always falls on the owner of the means of production or of the money-capital which was paid for them, hence never on the entrepreneur as such. A shareholder may be an entrepreneur. He may even owe to his holding a controlling interest the power to act as an entrepreneur. Shareholders per se, however, are never entrepreneurs, but merely capitalists, who in consideration of their submitting to certain risk participate in profits.[17]" Furthermore, because being an entrepreneur is not a profession and, as a rule, is not a lasting condition, entrepreneurs do not form a social class. The entrepreneur of Schumpeter has a "creative soul" and is an entrepreneur because he recognizes the potential to create new opportunities and carries out innovation. The entrepreneur is an innovator, and profit is the fundamental criterion in determining the innovative character of a new combination. It represents the prize for the introduction of new combination. The entrepreneur of Schumpeter is either the capitalist or a manager. The entrepreneurial class does not exist because entrepreneurship is a temporary and individual condition. Moreover the entrepreneur is not involved in the management of a firm; he is responsible for his creation.

While the approach of Schumpeter, still represents the perspective of many scholars in the field of entrepreneurship, it has received a great deal of criticism. Such authors as Cole, Redlich[18], and Evans have argued that is essential to define

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[17] J. Schumpeter, *The Theory of Economic Development*, New York, Oxford University Press, 1961, page 75. Knight has a different perspective on risk component: "The responsibility and risk of proprietorship is the essential attributes of entrepreneurship. the entrepreneur is the owner of all real wealth, and ownership involves, risk; the coordinator make decision, but is the entrepreneurs who accepts the consequences of decisions," See, Frank K. Knight, *Risk Uncertainty and Profit,* Chicago University Press, Chicago, 1971 (first ed. 1921), page. 45. S. Bianchi Martini wrote, "Si può più in particolare rilevare che, negli *studi di impostazione quantitativa*, la nozione di rischio viene normalmente riferita a quelle *situazioni aleatorie* nelle quali sia possibile determinare (oggettivamente o, per taluni autori, anche soggettivamente) i risultati degli eventi possibili e le connesse probabilità o, quanto meno, assimilare la "distribuzione di probabilità degli eventi" a distribuzioni note nei parametri caratteristici (es. *distribuzione normale*)." *La politica dei rischi nel sistema delle decisioni finanziarie d'azienda*, 1996, Pisa, IlBorghetto. See also, Umberto Bertini, *Introduzione allo studio dei rischi nell'economia aziendale*, Giuffrè, Milano, 1987, Prefazione.

[18] F. Redlich, *Entrepreneurship in the Initial Stages of Industrialization (with special reference to Germany)*, Weltwirtschaftliches Archiv, 75: 59-103 (1955), pp. 59- 62.

entrepreneurship in reference to firm decisions. Thus, these authors highlight the role of the entrepreneur as decision-maker[19]. Entrepreneurial function is not realized only with innovation, but also in direction and the decision-making process. The entrepreneur is responsible for the strategic decisions of a firm[20]. Evans identified three different entrepreneurial roles within the firm that can correspond to different decision making process. The first is the "innovating entrepreneur," who decides how to combine means of production in new ways. The second is the "managing entrepreneur," who carries out the more routine aspects of management. The last is the "controlling entrepreneur," who exercises continuing control. "He gives the go-ahead or the stop signals to the innovating entrepreneur or entrepreneurs in his organization; he approves or disapproves of the policies of the managing entrepreneur – sometimes going so far as to oust the managing entrepreneur or to spur him into becoming an innovating entrepreneur"[21]. Each entrepreneur and sometimes all entrepreneurs together must make decisions about the choice of products, methods of production, determination of the current input and output, the size and location of plants, the mobility of investments, relations with competitors, marketing procedures, relations with the government, and relations between entrepreneurs within a single business. These decisions cannot be expected to be the same in all situations. This highlights most complicated problem: there may be more than one figure who makes decisions within a firm.

Thus, Cole introduces the concept of the entrepreneurial team, defined as "those who make, and are responsible for the strategic decisions of a profit-oriented enterprise" (Cole, 1959). Evans acknowledges that the three types of entrepreneur can consist in one person as well as in different employees within an organization. Dobb (1900-1976), a young English radical economist, also

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[19] Cole defines the entrepreneurial function as "the purposeful activity (including an integrated sequence of decision) of an individual or group of associated individuals, undertaken to initiate, maintain, or aggrandize a profit-oriented business unit for the production or distribution of economic goods and services." A. Cole, *Business Enterprise in Its Social Setting*, Cambridge MA, Harvard University Press, 1959, page 233.

[20] Cole, *Business Enterprise in its Social Setting*, Cambridge MA, Harvard University Press, 1959.

[21] G.H. Evans, *The Entrepreuner and Economic Theory: a Historical and Analytical Approach*, American Economic Review, May 1949, Vol. 39, Issue 3, p. 336-348.

identified three different types of entrepreneur: the "industrial," the "financier," and the "commercial." These functions are carried out by a group of individuals including a manager and a major shareholder.

In the same period the Italian tradition is concentrate on the concept of '*soggetto economico*'[22]. Zappa and Pantaleoni argued that the entrepreneur is an abstract figure that does not exist in a real firm as a single person involved in the governance and management of a company. Rather many people are involved in the organization and direction of the production of goods. Indeed, many subjects within a single business have certain entrepreneurial characteristics. All people with these characteristics become part of the '*soggetto economico.*' Thus, the '*soggetto economico'* represents the group of people that actually practice the "supreme power" in a firm (Onida, 1975), as they are major shareholders, or financiers or they have some business relationship with the firm[23]. It is the organ in which the power of decision is centralized. The source of its power the capital but this does not correspond with the supremacy of owners. '*Soggetto economico'* is represented by the major shareholders that own the majority of voting stock. Masini[24] defined '*soggetto economico'* as the group of people that holds the interest of the development and growth of a firm, and includes those responsible for the management of the firm. It must make decisions about strategy and the

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[22] Cavalieri and Franceschi (2010) wrote, "L'economia aziendale classica in Italia fin dalle sue origini ha affrontato la problematica del soggetto economico e del soggetto giuridico individuando il primo in base al criterio della prevalenza dell'interesse, a suo tempo richiamato da Zappa (1956, I, page 86): 'Il soggetto economico ce esercita il controllo dell'azienda è la persona fisica o il gruppo delle persone nel cui prevalente interesse l'azienda è amministrata.' Il primo aspetto su cui la predetta concezione si sofferma riguarda la necessità che ogni combinazione economica esista una persona fisica o comunque una entità unitaria che eserciti il controllo delle sue scelte fondamentali, la governi, la indirizzi, le imprima quel moto che è condizione indispensabile per confrontarsi con il dinamismo dei mercati e dell'ambiente." *Economia Aziendale*, Vol. 1, Torino, Giappichelli Editore, page 81. Bertini (1994) sees 'soggetto economico' as "un'oligarchia formata dagli esponenti più rappresentativi del capitale e dai dirigenti di grado più elevato." Il sistema d'azienda. Schema di analisi, Torino, Giappichelli Editore, page 26. Cavalieri and Franceschi (2010: 84) argued on this perspective, "[Bertini] accosta al criterio della prevalenza dell'interesse un altro importante criterio: quello della competenza professionale e della disponibilità delle informazioni indispensabili per manovrare consapevolmente le leve del governo aziendale".

[23] Amaduzzi, *L'azienda nel suo sistema e nell'ordine delle sue rilevazioni*, 1978. Page 65.

[24] This definition is in accord with the view of the authors about firms. Indeed he defines a firm as an economic institute in which converge a lot of interest. Actually, the aim of the firm is the satisfaction of internal interest of people involved in the governance of the firm. Masini, *La struttura dell'impresa*, Milano, Giuffrè, 1964.

renewal of the organization. It is the figure that owns the control function of the managers of the firm. Giannessi (1979) considered the '*soggetto economico'* to be responsible for the success or failure of a firm. It represents not only those who invest capital and take the risks but also those who create combinations, decide about operations, and bear the consequences of these decisions[25]. Thus, concepts of the entrepreneurial team, definitions of '*soggetto economico'* and the three different conceptualizations of the entrepreneur have in common the fact that it is difficult to trace to a single person the carrying out of all entrepreneurial function. In particular, with increasing firm size and the evolution of a more organized form of capitalism, the success or failure of the entrepreneur and his firm depends less on his personal characteristics or his capability to discover opportunity. The firm leader is still involved in the decision making process, but in different way. Now the firm leader is not free to make decisions unilaterally, but must consider the ideas and work of his colleagues. The adoption of innovation was a special function of prior entrepreneurs. Today innovation is imposed by the engineers of a firm or by other employees who are able to discover new opportunities in the market or new ways to combine means of production (Schumpeter, 1929).

In the second half of the twentieth century the figure of the entrepreneur weakened further, and was difficult to recognize within the firm. In the USA, this perspective was already widely diffused by the beginning of the twentieth century. Taylor's about the exclusion of any form of personalization and the search for firm success in a series of organizational rules and administration behavior were the main traits by which the transformation of the American firm was analyzed. Like Schumpeter, Taylor focused on innovation. However, in this new perspective innovation is the result of organization. "In the past the man has been first; in the future the system must be first," Taylor wrote in "*The Principles of Scientific*

[25] "Giannessi rileva che il soggetto economico è colui per conto del quale si svolge l'attività aziendale e, soffermandosi sul compenso che ad esso compete per l'attività svolta, compenso sempre proporzionale ai risultati che sono stati raggiunti, osserva che tale soggetto non è soltanto colui che investe il proprio capital esponendolo a rischio di perdita, ma in genere, chi da vita alla coordinazione economica, determina le linee operative fondamentali e ne subisce le conseguenze, cioè si assume il rischio economico." Cavalieri and Franceschi (2010: 83).

Management" (1911). The system[26] is directed by management, which is responsible for the direction of the firm and is, in Taylor view, the real author of the organization. Management is a sort of "corporate innovator" that changes and revolutionizes work, thinking, and the planning of firm activity[27]. Thus, these considerations lead to a critical question: what is the real function of the entrepreneur in this kind of firm? (Veblen, 1904). This question is particular relevant, as the perspective of scientific management assigns to management governance and control of the firm.

We can understand the position of Taylor and American scholars, in considering the evolution of corporate governance, first in the USA and then in the rest of the world[28]. In the beginning of nineteenth century, entrepreneurs were able to manage their businesses by making use of different models of the governance system. None allowed the guaranty of limited liability for the debt of the firm, so the interest of a possible shareholder in the firm was limited. As a consequence, in this kind of company, the capitalist and the manager overlap in the figure of entrepreneur. This changed in the second half of the nineteenth century, when new laws allowed entrepreneurs to create entities with legal status. These companies could undertake rights and responsibilities that previously only individuals could assume. This was a very important judicial innovation because it allowed shareholders the guaranty of limited liability and provided entrepreneurs with easier acquisition of the financial resources useful to feed the growth and development of firms.

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[26] Italian research is characterized for a great number of contributes on system theory of the firm. Bertini (1994) wrote, "Il carattere sistematico dell'azienda dipende dalla stessa natura delle operazioni di gestione che risultano intimamente legate tra loro da un rapporto del tipo 'da causa ad effetto'. Nel loro insieme tutte le manifestazione del mondo aziendale costituiscono un corpo unico di fenomeni retti da leggi identiche e orientati da fini comuni. Si delinea pertanto una struttura di ordine superiore alla quale è possibile dare il nome di sistema." *Il sistema aziendale delle idee*, page 16.

[27] This definition of management is completely different from the meaning that European scholars attributed to it at the beginning of the twentieth century. Berta wrote: "Nulla di più lontano, perciò dal management inteso come gestione consuetudinaria dell'impresa, come routine, come prassi amministrativa consolidata o neutra gestione di un business, secondo l'uso che di questo termine era invalso in Europa." in *L'imprenditore*, *Un Enigma tra Economia e Storia*, Venezia, Marsilio Editori, 2004, page 79.

[28] Zattoni, *Assetti Proprietari e Corporate Governance*, Milano: Egea, 2006.

At the beginning of twentieth century, another major event contributed to the evolution of corporate governance field. Some American and English companies decided to list their stocks in the stock exchange market. This decision had two important effects. First, the number of shareholders that owned stock in these companies increased considerably. Second, the link between the shareholders and the entrepreneurs and managers that directed these companies become less intense. Thus, listing in the stock exchange was related to the birth of the modern public company. The main characteristic of such a company is the separation between who grants capital – the shareholders – and who manages and controls the firm – the management. The birth of the public company began the phenomenon of separation between ownership and control. An interest study conducted by Berle and Means in the early 1930s in the USA confirmed the importance of the phenomenon. Analyzing the ownership structure of three large American corporations in 1929, they found that in each company, the major shareholder owned less than one percent of the company's stock. These data suggest how the life of a firm, in the beginning of the twentieth century, depended on the decisions of the people who managed the company, the person who directed the firm or served on the board, is a salaried manger did not own stock in the firm.

The separation between ownership and control gives a lot of power to management and debunks the myths of the autonomy of a single entrepreneur. Thus, in the middle of the twentieth century, capitalism underwent a managerial transformation, in which managers became most authentic representation. This transformation was interpreted in different ways by different scholars. Some researchers considered the advent of large corporation as the beginning of the bureaucratization pattern of the economy. Others judged the "managerial revolution" to be the apex of economic development. One of the most important supporters of this perspective is Peter F. Drucker, who defined management as the organ responsible for the "policy making" process because it is the organ that decides "in which mode the things should be done[29]." Management is responsible

[29] Drucker taught that management is "a liberal art," and he infused his management advice with interdisciplinary lessons from history, sociology, psychology, philosophy, culture and religion. He

for the strategic development of the firm, for its renewal, and for its growth. Drucker identified three different responsibilities of a firm's top management team: (i) to make decision about what kind of activity the firm should be involved in and in what products and markets; (ii) to make decision about how to allocate human resources within the firm to achieve good performance; (iii) and to ensure the continuity of firm life.

Thus, in this perspective, entrepreneurial function is a consequence of the cooperation of the whole company. In a large corporation, ideas come from the group of people that work within the firm. They represent the great expression of the group of people involved in the direction of the firm[30]. Ferrero (1987) argued that top management must manage business operations and explore and exploit market opportunities. Chandler, in two important books about the history of management, found in executives the great expression of entrepreneurship. Chandler argued that entrepreneurial function consists of the capability to make strategic decisions and manage firm resources to implement long term plans. This is the responsibility of top management. Obviously, participation in ownership and the consequences of risk-taking still represents allow shareholders to be considered as part of the "entrepreneurial subject" (Bertini, 1995)[31]. However, it is

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also believed strongly that all institutions, including those in the private sector, have a responsibility to the whole of society. "The fact is," Drucker wrote in his 1973 *Management: Tasks, Responsibilities, Practices*, "that in modern society there is no other leadership group but managers. If the managers of our major institutions, and especially of business, do not take responsibility for the common good, no one else can or will." page, 325.

[30] Bianchi Martini (2009) wrote, "In termini economico-aziendali possiamo affermare che il processo di governo, pur nella sua articolata composizione e nella relazione dinamica tra schemi mentali individuali e mappe cognitive collettive, è orientate e sorretto da un insieme, normalmente abbastanza circoscritto di idée guida. Le idee guida sono idee dominanti che tratteggiano gli orientamenti alla base della logica di governo, ponendosi come bussola per le decisioni e, se adeguatamente comunicate e fatte proprio dal sistema umano, come catalizzatore delle energie umane. Le idee guida si articolano ai diversi livelli dell'organizzazione." *Introduzione all'analisi strategica*, Torino, Giappichelli. Concerning the role of ideas, Bertini (1995) wrote, " Sebbene siano le idee imprenditoriali a caratterizzare la gestione in senso politico e quelle manageriali e esecutive a definirla in senso operativo, l'economicità aziendale dipende globalmente da queste tre classi di idee, in quanto tutte ugualmente funzionali alla vita del sistema." *Scritti di politica aziendale*, Torino, Giappichelli.

[31] U. Bertini (1995) wrote, "Riesce difficile definire uno schema in cui la qualifica imprenditoriale venga attribuita a determinati soggetti e quella manageriale a determinati altri, in modo inequivocabile; altrettanto, e forse ancora di più, è la delimitazione dei rispettivi compiti in modo appropriato. Si è detto infatti che sia il capitale di comando, sia la direzione aziendale, unitamente

not sufficient to exhaust the flow of entrepreneurial function. Being an entrepreneur means managing change and innovation and in the modern corporation, there are many subjects involved in these tasks. Thus, the key concept of this new perspective is the distribution of entrepreneurial tasks between different bodies of top management. Each task has its origin in the main characteristics that were usually attributed to the entrepreneur: (i) contributions in ownership; (ii) contributions in free business initiatives; (iii) and contributions in directional-organizational activities (Ferrero, 1968; Invernizzi, 1993; Bertini, 1993; 1995).

Considering the diffusion of entrepreneurial tasks, many authors have abandoned the concept of the entrepreneur, introducing instead the concept of entrepreneurship. And since the entrepreneur's responsibilities may be carried out by different subjects within firm, it would be more correct to speak of **Corporate Entrepreneurship** (Burgelman, 1983, Stevenson and Jarillo, 1990, Zahra 1993; 1996). Corporate Entrepreneurship refers to the efforts of corporations to generate new business, to introduce products or process innovation, and to strategically renew the firm (Sharma and Chrisman, 1999). Corporate Entrepreneurship refers to the activities a firm undertakes to stimulate innovation and encourage calculated risk taking throughout its operations (Zahra, Filatotchev and Wright, 2009). It is the result of the related entrepreneurial activities undertaken by multiple firm participants (Bergelman, 1983).

Thus, Corporate Entrepreneurship involves the participation of several subjects in entrepreneurial activity and consequently the loss of the individual dimension of entrepreneurship. According to Stevenson and Jarillo (1990) the field of Corporate Entrepreneurship can contribute to theory about

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alle forze politico-sociali condizionanti l'azienda, appartengono all'area del potere aziendale: ciò anche in relazione al fatto che oggi imprenditori puri, in senso classico, così come alti dirigenti puri, non esistono più. In pratica molti 'imprenditori' finiscono per svolgere funzioni manageriali e molti 'manager' debbono cimentarsi nella soluzione di problemi imprenditoriali. E siccome il capitale di rischio pur sempre la primaria fonte di potere aziendale, molti dirigenti, specialmente nelle aziende di medie dimensioni, finiscono per sottoscrivere partecipazioni minoritarie al solo scopo di rafforzare la propria posizione di controllo sulla gestione. Si hanno così non di rado figure di 'imprenditori-manager' e 'manager-imprenditori.'" *Scritti di Politica Aziendale*, Torino, Giappichelli Editore.

entrepreneurship and corporate management, and finding in the innovative behaviour of the whole firm a source of development and growth for the company.

1.1.2. The main traits of Corporate entrepreneurship

Entrepreneurship involves the identification of market opportunities and the creation of combinations of resources to pursue them (Schumpeter, 1934; Kirzner, 1973; Guth and Ginsberg, 1990). The strategy literature identifies three types of Corporate Entrepreneurship (Stopford and Baden Fuller, 1994). One is the creation of new business within an existing organization. Literature calls this phenomenon corporate venturing or intrapreneurship (Burgelman, 1983; Pinchot; 1985; Block and MacMillan, 1993). Another is the transformation or strategic renewal of existing organizations (Kanter, 1983). The last is the changing of the "rules of competition" for the industry, as suggested by Schumpeter (1934).

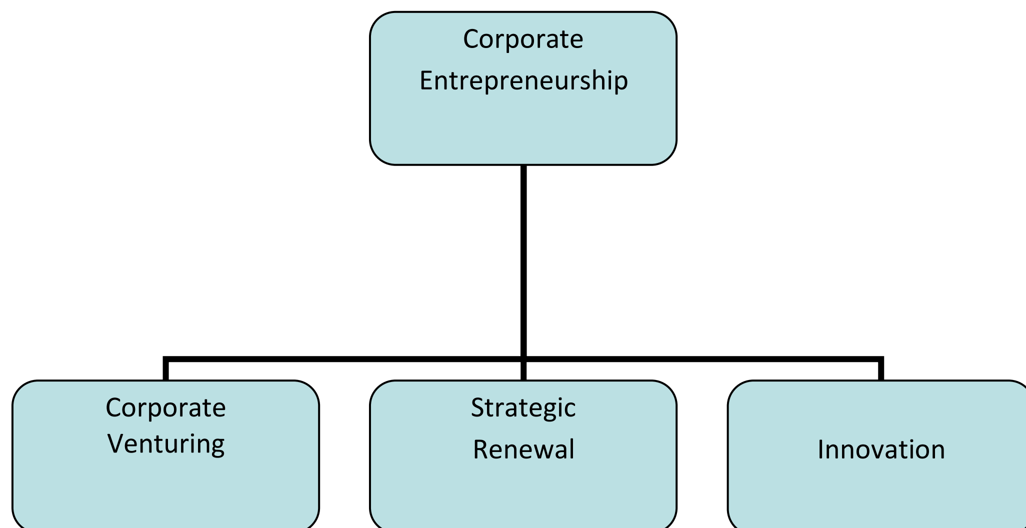
Scholars have argued that each type of Corporate Entrepreneurship has different characteristics that require separate considerations (Guth and Ginsberg, 1990). In particular, corporate venturing is the result of an entrepreneurial group of individuals inside an organization that is capable of persuading others to alter their behavior, thus influencing the creation of new corporate resources (Burgelman 1983). This follows from innovations that exploit new markets or new product offerings, or both (Sharma and Chrisman, 1999). It is a special mode of entrepreneurial development that is able to generate new activities, exploiting all firm competencies (Invernizzi *et al.*, 1988). These venturing efforts may or may not lead to the formation of new organizational divisions, that are distinct from the existing organization in structural meaning (Sharma and Chrisman, 1999).

Strategic renewal refers to the revitalizing of a firm through innovation and changing its competitive profile. It means refreshing the company's activity by changing the scope of its business, its competitive approaches, or both. It also means building or acquiring new capabilities and innovatively leveraging them to add value for shareholders (Zahra 1995; 1996). Strategic renewal is achieved through the redefinition of the business concept and firm's mission through the

reorganization and introduction of system-wide changes for innovation (Zahra, 1993). These changes alter pre-existing relationships within the firm or between the firm and its environment and in most cases will involve some sort of innovation (Sharma and Chrisman, 1999).

The last type, changing the rules of competition, refers to an organization that introduces an innovation that is able to break and change the "game rules" (Schumpeter, 1934; Stevenson and Gumpert, 1985). It can a consequence of the capabilities of an entrepreneurial firm to detect and fill gaps between what markets really desire and what the organization currently offers, and exploring and exploiting the entrepreneurial capabilities that exist in the market (Hult *et al.*, 2003). In this case, the entrepreneurial behavior of a firm must transform not only the enterprise but also the competitive environment or industry into something significantly different from what it was (Stopford and Baden Fuller, 1994).

Figure 1. The three types of Corporate Entrepreneurship



Reference. Adapted from Sharma and Chrisman, 1999

These different types of entrepreneurship can exist in the same firm at the same time. Moreover, all types, even if with some differences, have some characteristics in common (Stopford and Baden-Fuller, 1994). First of all, many authors have argued that all kinds of entrepreneurship are based on innovations that require changes in the pattern of resource deployment and the creation of new capabilities (Baumol, 1986; Sirmon *et al.*, 2007). Moreover literature on

entrepreneurship suggests five attributes common to all types of entrepreneurship. They are:

- Proactiveness;
- Aspirations beyond current capabilities;
- Team orientation;
- Capabilities to resolve dilemma;
- Learning capabilities.

The first attribute discussed by researchers is **proactiveness** (Miller and Friesen, 1978). "Individual entrepreneurialism is associate in the literature with freedom to conduct experiments (Handy, 1989), and renewal with more extensive experimentation by groups. Likewise, the idea of frame-breaking innovation, albeit sketchy in the literature, is essentially successful experimental behavior (Hisrich and Peters, 1986) by the whole organization. Unlike Miller (1983), we do not regard proactiveness as necessarily meaning being the first in an industry to do something. Firms can be proactive in renewal, when they borrow others' ideas as a means of breaking from past behaviors" (Stopford and Baden-Fuller, 1994: 523). Entrepreneurial organizations must be simultaneously innovative and financially risk-averse, and must spread and minimize risks by initiating many different projects (Stevenson and Gumpert, 1985). However, this proactive behavior does not mean taking high risks without any form of convenience.

The second attribute is **aspirations beyond current capability**, which indicates the aim of continuous improvement by finding better combinations of resources. Stevenson and Jarillo (1990) defined entrepreneurship as the process by which individuals pursue opportunities without regard for the resources they currently control. This attribute is essential to seek industry leadership and frame-breaking change (Hamel and Prahalad, 1989).

The third attribute is **team orientation**, which highlights the crucial role that top and middle managers must play in promoting and supporting innovative ideas and creative individuals (Bower, 1970; Hornsby *et al.*, 2002; Zahra 1996). In the rest of this work we will analyze this attribute, concentrating especially on the board's role in sustaining and promoting Corporate Entrepreneurship. Scholars

argued that 'vertical' teams can help improve both decision making and implementation.

The fourth and fifth attributes proposed by Stopford and Baden-Fuller (1994) are the **capabilities to resolve dilemmas and learning capability**. The first refers to the aspiration of a firm to surmount challenges that previously appeared impossible to renew the organization or introduce a disruptive innovation (Hampden-Turner, 1990). The second one, learning capability, is generally ignored in the entrepreneurship field. However it seems to be an essential entrepreneurial skills because the capability to explore and exploit market opportunities is reliant on practice and results from training and experience accumulated over time (Stevenson and Jarillo, 1990; Senge 1990)[32]. For this reason, firms that extensively develop Corporate Entrepreneurship can be expected to make a sustained investment in the learning environment (Stopford and Baden-Fuller, 1994).

Following this review of the common traits of different forms of Corporate Entrepreneurship, one more question must be resolved: what must an entrepreneurial firm do to acquire these attributes? We can easily answer this question by considering the paper of Shane and Venkataraman (2000), who argued that to have entrepreneurship, entrepreneurial opportunities were first required. Thus, a firm characterized by all these attributes is entrepreneurial. In other words, it is able to pursue entrepreneurial opportunities. Casson (1982) defined entrepreneurial opportunities as situations in which new goods, services and organization methods can be introduced and sold at a price higher than the

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[32] Bianchi Martini (2010) wrote, "[è importante] accennare allo stretto legame che esiste tra "apprendimento", "affermazione di nuove idée" ed "innovazione imprenditoriale". Se intendiamo infatti l'apprendimento non come passivo assorbimento di conoscenze, ma piuttosto nel suo moderno significato di learning, si può intendere lo stesso come un processo attivo che implica sperimentazione ed uso creativo dell'esperienze diretta ed indiretta." *Introduzione all'analisi strategica*, cit. page 30. Concerning this point, Warglien (1990) wrote: "[Apprendere] non significa soltanto accrescere il proprio repertorio di conoscenze, ma anche mettere in moto un processo di esplorazione di nuove alternative e di nuovi comportamenti, di ricombinazione del proprio patrimonio conoscitivo, di attivazione di nuove esperienze. Il processo innovativo, quindi, se da un lato è debitore dei risultati passati dell'apprendimento, che costituisce la materia grezza su cui essa opera, appare per un altro verso uno dei processi del ciclo dell'apprendimento stesso." Innovazione ed impresa evolutiva. *Processi di scoperta e apprendimento di un sistema di routines*, Padova, Cedam, cit. page 10.

cost of production. Although their recognition is a subjective process, the opportunities themselves are objective phenomena that may not be known to all people at all times. For example, Smartphone have created many opportunities for service providers, whether or not people are able to discover them. Entrepreneurial opportunities differ from other opportunities for profit. The latter group has the aim to enhance the efficiency of existing goods, services and organization methods; entrepreneurial opportunities[33] instead require new combinations of means or new action strategies (Schumpeter, 1934; Kirzner, 1973). Prior research has shown that entrepreneurial opportunities exist because different people have different beliefs about the value of resources and the potential to transform them into a different state. This leads people to make different assumptions about the price at which a good can be sold or about what new markets could be created in the future (Schumpeter, 1934). An entrepreneurial discovery occurs when someone conjectures that a set of resources could be used better (Shane and Venkataraman, 2000). If this conjecture is correct, people (a firm) can earn entrepreneurial profit. Thus, the existence of entrepreneurial opportunities depends on asymmetries of information and differing beliefs[34].

The existence of entrepreneurial opportunities is not a sufficient condition for Corporate Entrepreneurship. Entrepreneurship requires action (McMullen and Sheperd, 2006). The second important step is the discovery and exploitation of entrepreneurial opportunity (March, 1991). Only if this step is carried out can we

[33] Shane and Venkataraman wrote, "Entrepreneurial opportunities come in a variety of forms. Although the focus in most prior research has been on opportunities in product markets (Venkataraman, 1997) opportunities also exist in factors market, as in the case of discovery of new materials (Schumpeter, 1934). Moreover, within product market entrepreneurship Druker (1985) has described three different categories of opportunities: (1) the creation of new information, as occurs with the invention of new technologies; (2) the exploration of market inefficiencies that result from information asymmetry, as occurs across time and geography; and (3) the reaction to shifts in the relative cost and benefits of alternative uses for resources, as occurs with political, regulatory, or demographic changes," *The promise of entrepreneurship as a field of research*, Academy of Management Review, 2000.

[34] Different beliefs are a consequence of the fact that people make decisions on the basis of hunches, intuition, and accurate or inaccurate information which can cause incorrect decisions (Kirzner, 1973). Asymmetries of information are a consequence of a continuous state of disequilibrium in which economies operate and an imperfect distribution of information about technological, political, social and regulatory changes (Schumpeter, 1934).

speak about an entrepreneurial firm. Pursuing entrepreneurial opportunities constitutes the core of Corporate Entrepreneurship. An entrepreneurial organization is one that pursues opportunities, regardless of the resources currently controlled, or the success or failure of the initiative (Stevenson and Jarillo, 1990). Thus, an environment that fosters the detection of opportunities, the motivation to pursue them, and their facilitation are three key parameters of entrepreneurial behavior.

The impact of Corporate Entrepreneurship on firm profitability and growth (Zahra *et al.*, 2009) has attracted researchers to investigate the organizational factors that can promote or obstruct entrepreneurial behavior and thus, the exploration and exploitation of entrepreneurial opportunity (Zahra, 1991; Zahra and Covin, 1995). Recent research appears to center on five factors that can affect a company's pursuit of Corporate Entrepreneurship (Hornsby *et al.*, 2002).

The first dimension is the **availability of resources** for entrepreneurial activity. Employees must perceive the availability of resources in order to feel free to pursue innovative activities. Resources are a key element for the exploitation of opportunities. Thus, individuals within an organization must have the time, knowledge, budget, information and other important resources for experimentation and risk-taking behaviors (Burgelman and Sayles, 1986; Slevin and Covin, 1997). To consider acting in entrepreneurial ways employees must perceive that resources are accessible for Corporate Entrepreneurship activities (Pinchot, 1985; Kreiser *et al.*, 2002). For new and innovative ideas, individuals require time to develop their ideas. Organizations should be reasonable in assigning employees workloads and allow employees work with each other on long term projects. In an entrepreneurial work environment, employees are allowed to conduct creative and entrepreneurial experiments in order to exploit new opportunities (Morris, 1998).

The second factor is the presence of a **supportive organizational structure** (Guth and Ginsberg, 1990; Covin and Slevin, 1991; Zahra, 1991, 1993; Hornsby *et al.*, 1993). A supportive organizational structure provides the administrative mechanism by which ideas are evaluated, chosen and implemented (Burgelman and Sayles, 1986; Goosen 2002). Organizations should avoid having

standard operating procedures for all major aspects of jobs and should reduce dependence on job descriptions and rigid performance standards (Kuratko *et al.*, 1990; Hornsby *et al.*, 2002).

The third dimension is **risk taking**, which indicates management's willingness to take risks and show tolerance for related failure. This is a very important dimension because, despite the potential contributions of entrepreneurial activities to value creation, management may not support them. Careerism and short term-based reward systems may discourage management's pursuits of corporate entrepreneurship (Jacobs, 1991). Although investors can usually reduce their risk by holding diversified stock portfolios, top management cannot always diversify their risk, and some entrepreneurial activities have a high probability of failure (Zahra and Covin, 1995), which can depress a company's short-term performance and decrease executive compensation. As entrepreneurial failures can also damage executives' reputations and increase their risk of unemployment, managerial risk aversion may occur (Zahra, 1996). Thus, it is important for Corporate Entrepreneurship that top management be willing to take moderate risks.

The fourth factor is the **appropriate use of rewards** (Sykes, 1992; Barringer and Milkovic, 1998). Rewards can increase the motivation of individuals to engage in innovative, proactive and moderate risk-taking behaviors. An effective reward system that spurs entrepreneurial activity must consider goals, provide feedback, and emphasize individual responsibilities. The use of appropriate rewards can also enhance mangers' willingness to assume the risk associated with entrepreneurial activity.

The last important dimension is **management support**, the willingness of managers to facilitate and promote entrepreneurial activities in the firm. This support can take many forms including championing innovative ideas, providing necessary resources or expertise, or institutionalizing the entrepreneurial activity within the firm's system and process (Stevenson and Jarillo, 1990; Kuratko *et al.*, 1993; Pearce *et al.*, 1997; Hornsby *et al.*, 2002). This dimension has received a great deal of attention in the literature. Many scholars have highlighted management support as one of most important factors for promoting Corporate

Entrepreneurship (Zahra 1996; Zahra *et al*., 2000, 2009). Success in Corporate Entrepreneurship requires strong managerial support and the creation of an organizational context in which innovations can increase (Covin and Slevin, 1991; Kuratko *et al*., 1997). In the next chapters we carefully analyze this dimension, focusing on the board's role in sustaining Corporate Entrepreneurship.

A large body of research has been produced in recent years in the field of Corporate Entrepreneurship. Scholars have found many antecedents and consequences in the formation of an entrepreneurial firms. It is not the aim of this dissertation to analyze all the literature in the field of Corporate Entrepreneurship, however, following Guth and Ginsberg (1990) we propose four classes of contributions in the Corporate Entrepreneurship literature. The first focused on the influence of environment on Corporate Entrepreneurship. The main finding on this topic is that a strong and dynamic environment positively influences innovativeness and entrepreneurship within the firm (Miller, 1983; Sharma and Vredenburg, 1998; Dibrell *et al.*, 2011). Industry structure affects opportunities for successful new product development (Cooper, 1979). For example Zahra (1996) found that industries vary considerably in their technological opportunities (Geroski, 1990), (that is an executive's perceptions of his firm's ability to support and generate growth opportunities through product and process innovations). Industries with high levels of perceived technological opportunities are usually characterized by rapid and frequent product and process technology introductions and high levels of R&D spending and patenting. Conversely, industries low in technological opportunities are usually limited in their growth potential and report modest levels of R&D investment. Other scholars have found that competitive intensity, technological change, and product market domain evolution can be conducive to the emergence of entrepreneurial opportunities. These particular environment conditions are positively related to the probability that organizational members will recognize entrepreneurial opportunities (Ireland *et al.*, 2009).

The second area of contributions that we want to underline deals with the influence of strategic leaders on corporate entrepreneurship. Many scholars have argued that the level of Corporate Entrepreneurship within a firm depends on the characteristics, values, beliefs and vision of their strategic leaders (Guth and

Ginsberg, 1990; Zahra, 1996; Zahra *et al.*, 2000; Gabrielsson and Winlund, 2000; Zahra *et al*., 2009). The main contribution of this area is that management style affects the level and performance of new corporate ventures (Kanter, 1983). However, Porter highlighted the importance of considering the influence of governance and ownership on Corporate Entrepreneurship, as it can involve opposite interest of different people within a firm. Other scholars have found that top management, particulary the board of directors can affect the strategy of a firm (Friegener, 2005). Boards influence strategy indirectly through "decision control" activities such as evaluating past decisions made by top management, performing high-level reviews of strategic plans, and monitoring executive and firm performance (Fama & Jensen, 1983). Boards can also influence strategy through "decision management" activities such as ratifying strategic proposals, asking probing questions about important issues, and helping to formulate, assess, and decide upon strategic alternatives (Judge and Zeithaml, 1992). This field of research is quite large; in the next chapter we more thoroughly investigate the important link between Corporate Entrepreneurship and the role of the board of directors.

The third area of research concerns the influence of organization form on Corporate Entrepreneurship. Bureaucratic structures and management processes are considered barries to innovation and change within organizations. Dess *et al.* (1999) argued that designing organizations that reduce internal boundaries is critical for successful Corporate Entrepreneurship. Established companies must modernize their bureaucratic structure and processes, which can lead to slow decision making and an inability to adapt to new situations, find new combinations of resources and exploit new entrepreneurial opportunities (Hammer and Champy, 1994; Schmelter *et al.*, 2010). Firms must create organizational architectures in which entrepreneurial initiatives flourish spontaneously (Miles and Snow, 1978). Creating an effective architecture is often the most difficult part of crafting a successful Corporate Entrepreneurship (Garvin 2002).

The last area of research focuses on the relationship between Corporate Entrepreneurship and performance. In this field there are stream two different lines of contribution. The first regards the study of the influence of organizational

performance on Corporate Entrepreneurship. Scholars have argued that successful firms make more radical and more frequent product and process innovations than unsuccessful firms (Mansfield, 1963; Knight, 1967). The second concerns the influence of Corporate Entrepreneurship on firm performance. Empirical studies have largely found that firms with greater entrepreneurial orientation perform better (Zahra, 1991; Zahra and Covin, 1995; Wiklund, 1999). Covin and Slevin (1991) suggested that growing interest in the study of entrepreneurship is a response to the belief that such activity can lead to improved performance in established organizations. Peters and Waterman (1982) found that undertaking Corporate Entrepreneurship activity can improve a company's financial performance. Similarly, Zahra *et al.* (2000) found a positive relationship between Corporate Entrepreneurship and firm performance. However, established firms must balance their exploration and exploitation activities to achieve superior performance (Uotila *et al.*, 2009).

1.1.3. The process of Corporate Entrepreneurship: how firms nurture entrepreneurship

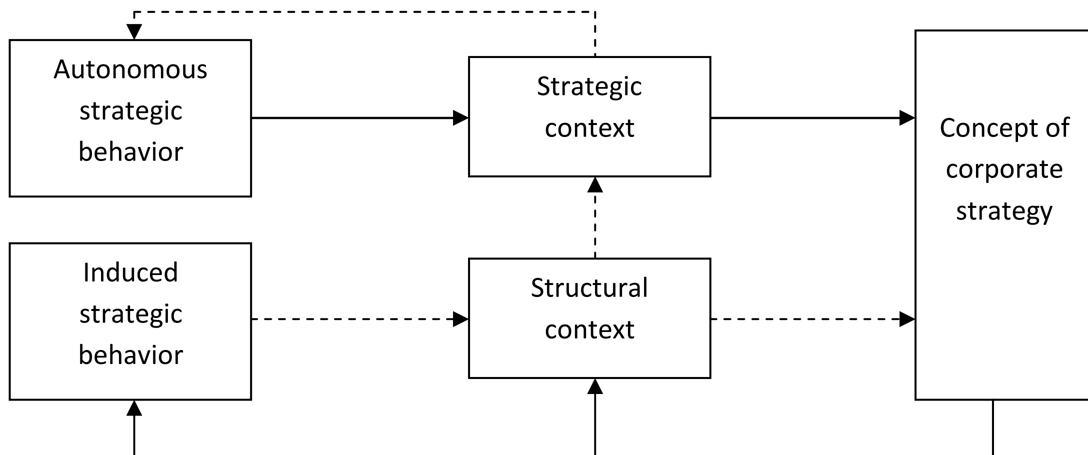
In the previous subsection we attempted to identify the major traits of Corporate Entrepreneurship, focusing on the attributes and internal factors that enables firms to achieve high levels of entrepreneurial activities. The question that still remains to be investigated is how a firm becomes entrepreneurial. In other words, in order to understand the importance of entrepreneurial opportunities, organizational structure, and culture in facilitating the recognition of entrepreneurial opportunities and their exploitation, we must clarify how the process starts, how it takes place and who the subjects are that take part in the process. The aim of this subsection is to understand how firms can generate and improve their capacity to engage in Corporate Entrepreneurship, extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations (Burgelman, 1984). In investigating the process of Corporate Entrepreneurship we will principally follow the Burgelman perspective (1983*a*, *b*; 1984), adding a number of other

contributions that we consider useful in order to better understand the Corporate Entrepreneurship process (Morris *et al.*, 2009).

The starting point of Burgelman's view is that strategy formulation and implementation are intrinsically intertwined in an incrementally evolving process (Murray, 1978; Quinn, 1980). Thus deliberated strategies are often different from realized strategies and different organizational contexts are associated with different strategic processes (Mintzberg, 1973; 1978). Burgelman proposed to explain the gap between deliberated strategies and realized strategies using the concept of Corporate Entrepreneurship.

The author proposes an inductively derived model of the dynamic interaction between different categories of strategic behavior, the corporate context process, and a firm's concept of strategy (Bergelman, 1983*a*). The model is presented in Figure 2.

Figure. 2 Model of the interaction of Strategic Behaviour, Corporate Context and the Concept of Strategy



Source. Burgelman, 1983*a*

The current concept of corporate strategy represents the explicit articulation of the firm's theory about the basis for its past and current successes and failures. It provides a frame of reference for the firm's actors, and provides the basis for the decision-making process concerning the firm's business portfolio and resource allocation. The concept of strategy is the starting point for a large part of the strategic activity in the firm. Induced strategic behaviors are the result of the

firm's strategic planning, and take place in relationship to its familiar external environments. To the current concept of strategy corresponds a structural context aimed at keeping strategic behavior at operational levels in line with the current concept of strategy. "Structural context" refers to the various administrative mechanisms that top management can use to influence the perceived interest of the strategic actors at the operational and middle levels in the organization (Burgelman, 1983*b*). Structural context operates as a sort of selection mechanism for induced strategic behavior. However, a firm can also generate autonomous strategic behavior that falls outside its current concept of strategy. Through such strategic behavior, a firm expand and redefines its environment. This provide the basis for strategic renewal and radical innovation. Autonomous strategic behavior is conceptually equivalent to entrepreneurial activity. As it takes shape outside the current structural context, to be successful, it is important that the organization accepts and integrates this strategic behavior into its concept of strategy. The process through which these two conditions can be satisfied has been identified in the process of strategic context determination. Strategic context refers to the political mechanism through which the employees of the firm question the current strategy and ask for the opportunity to rationalize successful autonomous strategic behavior. With the activation of this process successful autonomous behavior can become integrated with the concept of strategy (Burgelman, 1983*b*).

Thus, we can identify two different loops. The induced strategic behavior loop corresponds to the traditional view of top driven strategic management. The logical consequences of the activation of this loop are includes new product development projects for existing business, market development projects for existing products, and strategic capital investment projects for existing business.

The autonomous strategic behavior loop introduces new categories of opportunities. This because large resource-rich firms are likely to possess a reservoir of entrepreneurial potential at operational levels that can be expressed itself in autonomous strategic initiatives. According to Burgelman (1984), the process works in this way: entrepreneurial participants at the product market level conceive new business opportunities, engage in project championing efforts to mobilize corporate resources for these new opportunities, and perform strategic

forcing efforts to create momentum for their further development. Mid-level managers attempt to formulate strategies for this new business activity and try to convince top management to support them. Burgelman has identified the autonomous strategic behavior loop with Corporate Entrepreneurship. Thus, Corporate Entrepreneurship is the result of the capabilities of operational level participants to exploit entrepreneurial opportunities to the extent that corporate management that there is a need for entrepreneurship. This is why top management will tolerate autonomous strategic behavior. This provides the means to extend the frontiers of corporate capabilities and discover addition resource combination synergies for the firm. Moreover, entrepreneurial activity may be necessary to avoid increasing competitive pressure or to enter or leave a strategic group; it is also important for the growth and profitability of the firm (Zahra *et al.*, 2009). Given the value of strategic autonomous behavior, top management has the difficult task of championing the most appropriate entrepreneurial initiatives. Burgelman (1984) suggested two key dimensions of the strategic decision-making process concerning the selection of autonomous behavior. The first is the strategic importance of initiatives for corporate development; the second refers to operational relatedness, the degree of relatedness of the core capabilities of the corporation. The assessment of strategic importance is one of top management's most important responsibilities. Top management must evaluate how initiatives are able to maintain the firm's capacity to growth and act in areas where major current or potential competitor may growth and act. They can help firm create new defensible niches and help mobilize the organization. To make this decision it is important for top management teams to encourage middle level managers to "champion" new proposals based on their own substantive assessments and to compare their valuations of different initiatives with the assessments of the top management team. This interaction between different levels of management can improve top management's capacity to make strategically sound assessments. Additionally, operational relatedness is an important dimension of the strategic decision-making process of the top management team as concerns the selection of entrepreneurial initiatives. Thus, top management, helped by mid-level managers, must determine the key capabilities required to make a project successful; where,

when, and how to obtain the missing capabilities and at what cost; and how these capabilities could affect the capacities currently employed in the main business. Given these related dimensions top management can choose which initiatives to exploit and develop within the firm. Finally, having assessed an entrepreneurial proposal in terms of strategic importance and operational relatedness, corporate management must choose an organization design to structure the relationship between the new business and the corporation.

Coda and Mollona (2006) proposed a more complex and systemic model to understand the way firms nurture and develop a high level of entrepreneurship. In particular, they focused on the learning processes of top management's strategic intents, the managerial processes in which top management's actions are made clear, and the organizational behavior imposed by companies' top management or developed independently. The authors thus identified four different "motors" that should be coordinated to manage entrepreneurial strategies within the firm. "The first motor highlights top management's ability to create, more or less efficaciously, managerial actions aimed at achieving the contents of the intentional strategy. The second motor refers to top management's ability to update, if required, the strategic intents, taking account of the structural changes within the environmental context and company situation. Also by this means, the gap is controlled, aiming to keep the level of motivation of collaborators high without causing stress. The third motor makes it possible to achieve the potential for innovation built into the company's articulated human and organizational chain, to the extent that energy, know-how and creativity are released in the direction marked by a productivity and development growth strategy into new spaces for entrepreneurial initiative and responsibility. The possibility that this strategy can be shaped 'bottom-up' increases the company system's adaptability, making it quicker in perceiving the changes under way in the environment and in framing suitable responses. Lastly, the fourth motor describes top management's ability to open itself to questions and to learn, challenging its own mental patterns" (Coda and Mollona, 2006: 19). According to these authors, in order to successfully manage a company's entrepreneurial strategy, it is necessary to

orchestrate the simultaneous operation of the four motors, import energy into the company, and stimulate organizational learning and entrepreneurship processes.

However, at the origin of autonomous strategic behavior we can individuate a basic assumption about human nature and human capabilities. Do company executives assume that entrepreneurship is a capability that a chosen few are endowed with, and therefore make the decisions to recruit and invest in such individuals? Or do they assume that all employees have innate entrepreneurial potential, posing the greater challenge of creating a work climate that will enable members to discover and act upon that potential[35]? Based on these assumptions we can identify two general approaches regarding how to raise and improve levels of entrepreneurship within the firm. The first, "pick the winner," involves the efforts of the firm, which identifies people who are "entrepreneurial and then charges them with becoming champions of innovative projects. If there is not much entrepreneurial activity within the firm, it is possible assume that employees are not very entrepreneurial and so management must look externally in order to find the right people for the organization" (Morris et al., 2009). The main problem of this approach it is that is very difficult to predict who will be entrepreneurial; sometimes people who have done something entrepreneurial in the past are not able to do the same in a new context. The approach, "step up to the plate," is based on the assumption that while entrepreneurial behavior on the part of individuals is neither controllable nor predictable, it can be fostered and facilitated (Morris *et al.*, 2009). Thus, it is important to design the appropriate workplace environment, including aspects of strategy, structure, culture, controls, and human resource management practices. According to the authors, a key aspect in increasing entrepreneurship in the firm is the construction of a climate around the principle of balance. The paradox of Corporate Entrepreneurship (Birkinshaw, 2003) is the result of the simultaneous existence of two inconsistent states, a "duality of coexisting tension" (Eisenhardt, 2000). Therefore, a firm must achieve balance in terms of strategy, culture, structure, control, and human resources. Balancing in terms of strategy means balancing exploration and exploitation. It is

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[35] Morris *et al.*, 2009, *Properties of balance: a pendulum effect in corporate entrepreneurship*, Business Horizon, 52, 429-440, p. 430. The questions represent the starting point of their paper.

generally assumed that entrepreneurship is associated with exploration, but reality suggests that exploitation is also closely connected with Corporate Entrepreneurship. Entrepreneurship in exploration means discovery, recognition, creation of opportunity, translation of opportunity into highly innovative business concepts and risk assessment. Entrepreneurship in exploitation refers to creative approaches to mitigating and managing risk and leveraging the resources and skills associated with implementation of new concept and approaches. In this context, the effective entrepreneurial by a firm behavior should balance exploration and exploitation, while respecting ethical boundaries in order to avoid entrepreneurial excess (Birkinshaw, 2003; Bhuian, *et al.*, 2005; Morris *et al.*, 2009). Balancing in terms of culture implies the need to balance between individual and team initiatives. A central aspect of any entrepreneurial attempt is passion which belongs to the individual sphere. However, entrepreneurship also requires a motivated and coordinating team of individuals that can contribute to entrepreneurial development with their own skills and capabilities (Francis and Sandberg, 2002). The ability to achieve sustainable entrepreneurship in a company depends on the team's ability to balance individual initiatives and the spirit of cooperation and group ownership of innovation. In other words culture must balance individual passion for new opportunities with a commitment to the greater objectives of the corporation (Morris *et al.*, 2009). Empirical evidence suggests that this kind of balance can be found in highly entrepreneurial firms. In terms of structure it is important to balance autonomy and restraint. Companies must find a balance whereby discretion co-exists with direction and controls (Morris *et al.*, 2009). The ability to bridge the unknown and overcome resistance to change is consistent with higher levels of autonomy, wherein employees are empowered to exercise discretion and personal initiative in their jobs (Margison, 2002). In term of control, firms should balance resource tightness and looseness. Tightness of resources serves to guarantee accountability while encouraging free initiatives, and can lead people to challenge existing ways of doing things. Looseness of resources provides room for experimentation and adaptation, especially with new concepts that have yet to win managerial approval. Morris *et al.* (2006) found empirical evidence to support the balance of resources tightness

and looseness. They highlighted a positive effect on the level of entrepreneurship within the organization. They argued that fiscal controls must strongly emphasize outcomes and individual accountability, while slack resources permit individuals and teams to experiment with free initiatives. To improve the level of entrepreneurship, human resource firms should balance incentives and security with administrative and entrepreneurial skills. Most compensation and reward systems are not designed to promote Corporate Entrepreneurship, and sometimes may actually suppress innovative initiatives. Moreover, in many corporations there exists a genuine and historically justified fear of failure. Thus, firms must create "upside" for managers willing to take calculated risks; this includes introducing financial and social incentives, including formal acknowledgement from management; allocating company resources to support employee ideas; and, to provide security, providing an adequate salary and benefits package at the core of compensation. A balance between incentives and the security needed by employees can contribute to a work environment of controlled freedom (Morris *et al.*, 2009). Additionally, administrative and entrepreneurial skills should co-exist within the firm. Entrepreneurial skills are the key to creating a firm's future, while administrative skills are the key to exploiting that future as it is created. Thus, the properties of balance have an important effect on the improvement of Corporate Entrepreneurship at the firm level.

Various models of Corporate Entrepreneurship has been proposed in the scholarly literature (Ireland *et al.*, 2009)[36]. For example, in Guth and Ginsberg's (1990) model, Corporate Entrepreneurship is viewed as a set of phenomena that exist separate from strategy. Along with structure, process, and core values and beliefs, strategy is identified as an organizational-level driver of Corporate Entrepreneurship. Dess *et al.* (2003) based their model on the four forms of Corporate Entrepreneurship proposed by Covin and Miles (1999): sustained regeneration, organizational rejuvenation, strategic renewal, and domain redefinition. The model proposed outlines how acquisitive and experimental learning processes mediate the relationship between different forms of Corporate

[36] See also Floyd and Lane (2000), Hornsby *et al.* (1993), Covin and Slevin (1991), Lumpkin and Dess (1996), and Grandori and Gaillard (2011).

Entrepreneurship and the emergence of specific types of knowledge (i.e., technical, integrative, and exploitive). Kuratko *et al.* (2004) depicted individuals' and organizations' evaluations of entrepreneurial outcomes as determinants of future individual-level entrepreneurial behavior. Ireland *et al.* (2009) considered Corporate Entrepreneurship as a strategy manifested through three elements: an entrepreneurial strategic vision, a pro-entrepreneurship organizational architecture, and an entrepreneurial process and behavior as exhibited across the organizational hierarchy.

All these models have contributed a great deal to the development of literature about the Corporate Entrepreneurship process. However, we believe that Burgelman's approach still represents one the most appropriate models able to explain how a firm can become entrepreneurial.

1.2. The "firm's internal actors" of Corporate Entrepreneurship

Upper echelon theory (Hambrick and Mason, 1984) suggests that managers' demographic characteristics influence the decisions they make and, therefore, the actions adopted by the organizations they lead. Hambrick and Mason suggested that this occurs because demographic characteristics are associated with the many cognitive bases, values, and perceptions that influence the decision making of managers. Several studies have supported the relationship between upper echelon characteristics and organizational strategies and performance. For example, there is evidence that top management team (TMT) job-related diversity is related to the internationalization of firms (Lee and Park, 2006); TMT diversity in age, tenure, and education have been associated with organizational innovation (Camelo-Ordaz, *et al.*, 2005; Bantel and Jackson, 1989), changes in corporate strategy (Wiersema and Bantel, 1992), and information use (Dahlin, *et al.*, 2005). Finally, top management team gender diversity interacts with organizational culture and growth orientation in affecting organizational performance (Dwyer, *et al.*, 2003). Building on this theory, we believe that characteristics, beliefs, values and other demographic characteristics of different individuals within an organization can influence the level of Corporate Entrepreneurship within the firm. Thus, we believe that some characteristics of firm's stakeholders can be considered as "source" for improving the level of Corporate Entrepreneurship within the firm. In

particular previous literature have suggested that ownership (Zahra, 1996; Zahra *et al.*, 2000), the board of directors (Zahra *et al.*, 2009), the top management team (Srivastava and Lee, 2005), middle managers (Hornsby *et al.*, 2002), and employees (Campbell et al., 2012) represent the most important categories of stakeholders for sustaining and promoting Corporate Entrepreneurship within a firm.

We now briefly analyze these categories of stakeholders. This is simply a review of the literature on this topic of research. Indeed, in this section, our aim is to introduce the involvement of the different categories of stakeholders in Corporate Entrepreneurship activities within the firm, and then concentrate our attention on a specific actor: the board of directors.

Employee involvement with Corporate Entrepreneurship

Human assets have been recognized as an integral part of value creation (Coff, 1997; Campbell *et al.*, 2012). Firms in search of high levels of Corporate Entrepreneurship and wealth creation may strengthen research and development, collaborate with users or suppliers in open innovation programs, or try to motivate employees to innovate (Dos Santos and Spann, 2011). The knowledge and initiative of employees are a particularly powerful source of entrepreneurship within the firm, but their potential are not often fully utilized (Van Dijik and Van den Ende, 2002). To improve the level of Corporate Entrepreneurship within a firm, it is important to motivate and enable employees to act as entrepreneurs, use collective intelligence to source and select the most valuable innovative ideas, and promote their development and commercialization (Dos Santos and Spann, 2011). The literature has called this approach “collective corporate entrepreneurship,” referring to the entire employee base as a source of ideas, with collective intelligence methods for the down-selection of promising ideas and entrepreneurship techniques to commercialize these ideas in a corporate setting. Thus, this approach is built on the view of employees as a powerful source of new product ideas and innovations (Van Dijik and Van den Ende, 2002). Drawing on employees for innovations has several benefits: employees are more familiar with customer, market problems and the nuances of in-house and external emerging

technologies (many from university research or start-up experiences), and are often motivated to develop something new for self-fulfillment or career goals (Dos Santos and Spann, 2011). Further, using employees as an innovation source can be cost-effective and may avoid disclosure and intellectual property that may arise in open-innovation initiatives (Chesbrough, 2003).

Using employees as an innovation source has three challenges: first, the idea generation challenge: employees must be motivated to communicate their ideas, and must have a channel for this communication (Burt, 2004). Second, the idea selection challenge: if the innovation initiative is very successful, it may generate so many ideas that the selection of the most promising ones becomes very difficult or costly (Ozer, 2002; Toubia, 2006; Dahan et al., 2010). Third, the execution challenge: successful Corporate Entrepreneurship requires not only the identification of promising innovations but also their development and commercialization; thus, it must enable the execution of these ideas (Dos Santos and Spann, 2011).

To solve the *idea generation challenge*, previous research has suggested idea competitions to discover new ideas from employees or customers (Piller and Walcher, 2006; Ebner *et al*., 2009). Solutions to the *idea selection challenge* in the previous literature include the evaluation of potential ideas according to selection measures (e.g. newness, fit with competencies, feasibility, and expected return on investment (ROI) by management or R&D specialists; Cooper and de Brentani, 1984). Further, multiple measures can be aggregated and weighted through methods such as the analytic hierarchy process (Calantone *et al*., 1999) and the Delphi process (Rowe and Wright, 1999). Further, prediction markets have been proposed to select new product ideas (Stathel *et al.*, 2009; Chen *et al.*, 2010) and have been applied in combination with idea sourcing. The idea-selection challenge requires the appropriate design of the response scales for the idea selection measures (Riedl *et al.*, 2010), and of the prediction market (Spann and Skiera, 2003). Less academic research has been concerned with the *execution challenge*, as this is usually deferred to corporate practice outside of rigorous academic interest. This challenge entails mitigating the common inhibitors of employees' entrepreneurial activities, which include employees' lack of time and

entrepreneurial skill. Employees from different divisional and functional areas may not have the necessary perspective to successfully develop ideas (Burt, 2004; Dos Santos and Spann, 2011). For this reason, the support of middle managers, the top management team, and the board of directors is essential to pursuing Corporate Entrepreneurship within a firm.

Middle managers' contribution to Corporate Entrepreneurship

Literature has recognized the valuable contributions that middle managers can make to the processes of strategic change and organizational renewal and to fostering entrepreneurial activities (Hornsby *et al.*, 2002). According to the resource mobilization approach (Kanter, 1985), middle managers are the vanguards of change and organization-wide innovations (Fulop, 1991). Bower (1970) was among the first scholars to draw attention to the importance of middle managers as agents of change in contemporary organizations. After him, several authors (Drucker, 1985; Kanter, 1983, Peters and Waterman, 1982; Burgelman and Sayles, 1986; Pinchott, 1985) discussed different aspects of middle managers' contributions to entrepreneurship. Quinn (1985) was the first to recognize the valuable contributions and important roles of middle managers in the innovation process in an established company. Noting senior managers' isolation from actual day-to-day activities, Quinn highlighted the crucial importance of the roles middle managers can play in fostering communication concerning a company's mission, goals, and priorities. Middle managers interact with wide range of employees, which allows them to use both formal and informal approaches to encourage innovation and calculated risk taking. Middle managers also communicate their ideas for innovations to upper management, thereby creating an opportunity for these ideas to be evaluated and considered within the context of the firm's overall strategic priorities (Burgelman, 1983a,b).

Other writers (e.g., Peters and Waterman, 1982; Pinchott, 1985) have also observed the important roles middle managers play in informally encouraging employees to innovate and take risks. These middle managers provide political and organizational support for "skunk work," activities that result in innovative ventures. Kanter (1985, 1988) and Quinn (1985) also note the importance of

middle managers in promoting autonomous or informal Corporate Entrepreneurial activities. Middle managers can do this by providing rewards (mostly intrinsic) that allow employees to experiment with, and explore the feasibility of, innovative ideas. Middle managers can also use different approaches to make the organizational structure less resistant to change thereby allowing corporate entrepreneurial activities to flourish.

As noted earlier, some researchers have sought to examine the roles middle managers play in their companies' strategic process. In one such study, Floyd and Woolridge (1992) argued that middle managers frequently play pivotal roles in championing strategic alternatives and making them accessible to senior executives. Middle managers synthesize and integrate information, thereby crystallizing the strategic issues facing the company and setting the stage for strategic change. They also facilitate adaptability by altering the formal structure, and implement formal strategy and provide feedback. Moreover, middle managers play a key role in shaping their companies' strategic agendas by influencing the types and intensity of corporate entrepreneurial activities.

Additionally, Nonaka and Takeuchi (1995) highlighted the central role of middle managers. They suggested that most innovations originate from the middle of the organization, and that the promising ones are then sent to upper management for further analysis and evaluation. The innovations that meet the rigorous standards set by the top management team are then sent back to middle managers, who communicate them to the employees. In this model of innovation, middle managers actively and diligently gather innovation ideas from within and outside the firm. Middle managers work with vendors, observe the market and analyze the competition. As a result, they are well suited to observe areas where innovation and risk taking are needed. Middle managers also become aware of innovation efforts initiated by vendors and competitors. Frequently, middle managers transfer this knowledge to others in their company. Another noteworthy feature of the Nonaka and Takeuchi model is that it recognizes that middle managers frequently work on their ideas, often closely with employees, hoping to refine them and determine their potential. This initial, though informal, testing

process can help shape the ideas while creating the administrative structure needed to foster them.

Zahra *et al.* (1999) noted the importance of middle managers in facilitating Corporate Entrepreneurship efforts. Through their effective communication and use of rewards, middle managers create the social capital and trust needed to foster the corporate entrepreneurial process. However, as Bartlett and Ghoshal (1996) observed, middle managers can create an environment in their respective divisions or subsidiaries in which innovations and entrepreneurial activities can flourish. This can enable multinationals to capitalize on the unique resources that exist in their markets and respond to their customers effectively.

The literature also has highlighted several factors that can limit middle managers' willingness or ability to facilitate corporate entrepreneurship. Some managers have demanding work schedules that leave little time for innovation and experimentation. This is especially true in companies that have initiated restructuring programs (Floyd and Woolridge, 1994). Resources available for innovations are often constrained, and it can be a challenge for middle managers to obtain these resources (Pinchott, 1985). Managers also must work hard to get senior executives' attention and support for promising innovative ideas. They must also work through territorial disputes that occur among different units (groups) in their companies that fear the consequences of innovation on established lines of communication and the possible loss of access to organizational resources (Kanter, 1988). These are formidable challenges that can stifle middle managers' efforts to encourage and promote Corporate Entrepreneurship.

To summarize, research has suggested that middle managers can have pervasive influences on corporate entrepreneurial activities. This influence can, therefore, determine the viability and survival of various corporate ventures and other entrepreneurial initiatives (Hornsby *et al.*, 2002).

The role of the top management team in Corporate Entrepreneurship

Among organizational factors, researchers have recognized the specific role of top managers in sustaining Corporate Entrepreneurship (Srivastava and Lee, 2005).

Amit *et al.* (2000) proposed that firms that possess entrepreneurial management would successfully create new products more quickly and obtain economic rents. Entrepreneurial management promotes an empowering corporate culture, enabling firms to develop individuals who think and act with entrepreneurial autonomy. Similarly, Miles *et al.* (2000) suggested that top management must develop and institute a strategic vision to promote products or process innovations and entrepreneurial activity for all employees. Pisano (1996) emphasized the important role of top managers in developing technological capabilities for new products. Verona (1999) presented a resource-based view of product development in which product development capabilities originate from organizational agents, including top managers. Mitchell (1989) contended that managers time their actions based on relative resource advantages over their rivals. For example, Mitchell noted that the more similar a new product is to existing products, the greater will be the threat, and the earlier the response to the new product's introduction will be. In related research, Chen *et al.* (1992) found that the greater the threat presented by a rival's action, the more likely and the faster a firm will respond. Thus, the perception of external threat and internal assessment by top management are likely to influence the order and timing of a firm's new product moves. Thus, top managers are recognized as key entrepreneurial resources of the firm (Penrose, 1959) that influence the order and timing of new product moves.

Within the domain of the research on the role of top management in new product moves are researchers who have argued that top management support to new product development teams is particularly important for innovation. In a review of product development literature, Brown and Eisenhardt (1995) identified the significant role of top management in the product development process. The authors argued that although the product development process may be delegated to a cross-functional project team, top management support is critical for the timely and successful introduction of a new product. Some studies have also found empirical evidence for the importance of top management support and monitoring in the effectiveness (Hitt *et al.*, 1999) and innovativeness (Sethi *et al.*, 2001) of cross-functional new product teams.

Similarly, Cooper and Kleinschmidt (1994) recognized the importance of top management support for the timeliness of new product introduction. In a more recent meta-analysis of the determinants of new product performance, Henard and Szymanski (2001) found that senior management support has a positive relationship with new product performance. Top management support could come in the form of presenting a vision for the future, communicating a distinctive product concept, giving approval to a project team to go ahead with a new idea, or providing necessary resources. Based on the above research, there seems to be a widely shared belief that top management plays a key role in new product introduction. In terms of identifying the specific characteristics of top managers that could influence the order and timing of new product moves, we refer to the study by Murthi *et al.* (1996) that measured managerial efficiency with respect to marketing and production areas and linked it to order of entry. However, in addition to the functional (e.g., marketing, production) skills of top management, there could be other important characteristics of top management - such as their experience, expertise, and cognitive diversity - that could affect their innovation and risk-taking capabilities and influence the order and timing of new product moves by their firms. Accordingly, previous research (Finkelstein and Hambrick, 1990; Jackson, 1992; Wiersema and Bantel, 1992), has demonstrated that the skills, market knowledge, and background of the decision maker influence strategic choices. Srivastava and Lee (2005) found that certain entrepreneurial activity, such as a new product introduction, requires a strategic decision, and it is the top management of the firm that decides whether and when to introduce a new product. Moreover, the upper echelon perspective links top management demography to several important outcomes, such as strategic change (Grimm and Smith, 1991; Wiersema and Bantel, 1992), firm performance (Finkelstein and Hambrick, 1990; Smith *et al.*, 1994), and innovation (Bantel and Jackson, 1989).

Thus, research suggests that a top management team that is behaviorally integrated, features a decentralization of responsibilities, and is risk inclined and characterized by a system of compensation based on long-term performance is positively associated with Corporate Entrepreneurship (Ling *et al.*, 2008).

The influence of ownership and governance on Corporate Entrepreneurship

Ownership structure of a firm can be investigated from a number of perspectives. Commonly ownership structure refers either to ownership concentration or to ownership by different groups of blockholders (Lappalainen and Niskanen, 2009). Ownership determines a company's relationship with shareholders and its investment horizons. Corporate Entrepreneurship also requires a long term view. Thus, when major shareholders own stock in a company for a long period, they are in a position to increase executives' interest in Corporate Entrepreneurship. Moreover, the existence of a major shareholder leads to better monitoring of executives' decisions and ensures attention is given to Corporate Entrepreneurship (Zahra, 1996). Based on the review of the previous literature, the influence of ownership on Corporate Entrepreneurship involves investigating how corporate ownership affects managers' willingness to take risks (Jones and Butler, 1992). This is because executives are usually responsible for championing, evaluating and integrating entrepreneurial initiatives into a company's formal structure (Burgelman, 1984; Zahra, 1996). As they usually have a short term perspective and are usually risk-averse, it is important that corporate ownership and firm's governance system are able to spur and improve executives' interest in Corporate Entrepreneurship activities. Previous research has found that positive factors increasing the level of Corporate Entrepreneurship within a firm include the ownership of some stakes by executives, ownership by an institutional or powerful shareholder, and the involvement of outside directors with ownership (Zahra, 1996; Zahra *et al.*, 2000). For example, unwillingness to support Corporate Entrepreneurship may stem from executives' lack of ownership interest in the companies they manage (Wright *et al.*, 1996). Lack of stock ownership may cause executives to behave opportunistically by supporting projects that increase their own wealth and further ensure their job security. Lack of ownership may also discourage executives from supporting Corporate Entrepreneurship projects that may put their salaried positions in jeopardy (Fama and Jensen, 1983). A way to promote managerial support for Corporate Entrepreneurship is to increase managers' ownership stakes in the companies they

run. Increased ownership makes executives' wealth more dependent on their company's long-term performance, which gives executives the incentive to pursue long-term Corporate Entrepreneurship projects (Jenkins and Seiler, 1990). Stock ownership can also empower managers to initiate and champion Corporate Entrepreneurship activities (Finkelstein and D'Aveni. 1994) such as innovation and venturing initiatives designed to increase the long-term value of the firm (Hitt *et al.*, 1994). Motivated by their ownership stake and the desire to accumulate wealth, these manager-owners will support the Corporate Entrepreneurship projects they believe will have the greatest potential impact on their firms' long-term financial performance. When the wealth of executives and shareholders are closely aligned, the pursuit of innovation and domestic and international venturing is expected to increase (Zahra *et al.*, 2000).

This theme is relevant because Corporate Entrepreneurship can enhance shareholders' value. The creation of new wealth is one of the foundational objectives of entrepreneurial activities (Vorzikis *et al*., 1999; Hitt *et al*., 2001). An important field connected to this is the role of the board in supporting Corporate Entrepreneurship activities. This is because a corporate governance system – the mechanism that regulates the relationship between executives and shareholders – can profoundly shape managers' commitment to Corporate Entrepreneurship. Thus, a strong and vigilant board of directors can encourage managers to support and pursue entrepreneurial activity (Zahra, 2006). In the next chapter we will concentrate our attention on the role of the board in sustaining Corporate Entrepreneurship, considering it as a real source of entrepreneurial activities within the firm.

Chapter 2. The board of directors' involvement with Corporate Entrepreneurship: the impact of the board's attributes

2.1. Board's role in Corporate Entrepreneurship

Corporate Entrepreneurship is any effort to develop and combine corporate resources in new ways, to create a new business or originate a strategic renewal to create additional value for a firm (Guth and Ginsberg, 1990; Sharma and Chrisman, 1999). Thus, the creation of wealth is the objective of entrepreneurial activities (Vorzikis *et al.*, 1999; Hitt *et al.*, 2001) and a board's support is one of the most important factors in encouraging and promoting Corporate Entrepreneurship. (Zahra, 1996; Zahra *et al.*, 2000; Zahra *et al.*, 2009)[37]. This important role in sustaining Corporate Entrepreneurship can be understood by considering the principal functions that the board must perform within a firm[38]. Research on the role of the board has been guided by four distinct theoretical perspectives that represent four different views about what directors should do within an organization (Zahra and Pearce, 1989; Johnson *et al.*, 1996).

The first is the so called **legalistic perspective**. This approach suggests that the main function of boards of directors is carried out their legally mandated responsibilities. Thus, boards are responsible for corporate leadership without

[37] Short *et al.* (1999) wrote, "Building on the arguments advanced by Tricker (1984), Keasey and Wright (1993) emphasized the need to view corporate governance as having two broad dimensions. First, the monitoring of management performance and ensuring accountability of management to shareholders emphasizes the stewardship and accountability dimensions of corporate governance. Second, governance structures and processes need to encompass mechanisms for motivating managerial behavior towards increasing the wealth of the business; that is, to enhance enterprise", *Academy of Management Review*, Vol. 29, No. 4, pp. 337-352: 338.

[38] The Corporate Governance Committee, in the recent review of *Corporate Governance Code*, argue that "Board of Directors has the primary responsibility for determining and pursuing the strategic objectives of the issuer and of the group of which it is a member or which it heads." Thus, we can highlight that also the guidelines of Italian Stock Exchange seems assign to the board of directors a role in the strategic development of the firm.

interfering in day to day activities, that are the responsibility of the CEO and senior executives. According to this perspective, the principal tasks of a board consist of selecting and replacing the CEO, representing the interests of the firm's shareholders, providing advice and counsel to top management, and serving as a control mechanism by monitoring managerial and company performance (Carpenter, 1988; Ewing, 1979; Mattar and Ball, 1985; Mueller, 1979; Vance, 1983; Zahra and Pearce, 1989). Thus, the legalistic approach posits that a board must perform two primary roles: service and control. The service role involves increasing company reputation, establishing contacts with the external environment, and actively supporting executives (Louden, 1982; Carpenter, 1988). The control role involves evaluating the adequacy of the organizational, administrative and accounting structure, and the general performance of the company and CEO to ensure corporate growth and the protection of shareholder interests (Louden, 1982; Chapin, 1986). Hence, according to this approach, a board is not expected to initiate strategies or develop policies. Instead it is responsible for reviewing and approving managerial initiatives that will determine company performance (Zahra and Pearce, 1989).

The second perspective is the **resource dependence approach**. This theory views boards as an important source of information for executives. Moreover, because of their prestige in their communities, directors are able to obtain resources for successful company operation (Zahra and Pearce, 1989). As a consequence, the board can enhance the firm's legitimacy in society and help it achieve its efficiency and performance goals (Pfeffer, 1972; 1973, Price 1963). Thus, directors can help firms interface with the general and competitive environments and collect resources and consensus. The resource dependence perspective views board roles more broadly than the legalistic approach. Hence, the theory suggests that boards of directors have another important role in addition to their control and service roles: a strategic role. In other words, a board may be actively involved in the strategic arena by providing counsel and advice to the CEO, by initiating its own analyses, or by suggesting alternatives (Zahra and Pearce, 1989).

The third approach is the **class hegemony perspective**. This approach find its roots in Marxist sociology (Mills, 1956; Ratcliff, 1980), and views boards as a means of perpetuating the powers of the capitalist elite. According to this theory, the board of directors reflects a shared commitment among capitalists to control social and economic institutions, and thus wealth (Zahra and Pearce, 1989). Evidence for this principal function of the board is the fact that only the most influential and prestigious individuals are invited to participate on a board. As a consequence, the exclusion of other social groups allows capitalists to protect their values and interests. Disregarding the fact that in the modern ownership structure other social groups – such as institutional investors, the state, and employees - can own significant blocks of corporate stock, this "negative" perspective considers service and control as the principal tasks of a board of directors, and in the interest of the capitalist elite.

The fourth perspective is the **agency theory**. This approach is among the most recognized in the literature on board roles and contributions. This theory suggests that agency relationship is the focal point in analyzing corporate governance mechanisms. Agency theorists believe that because of the dispersion of corporate ownership, executives possess considerable freedom and powers of action. Left alone with their short term vision and reward system (Jacobs 1991), these executives may pursue objectives that could be conflict with the goals of shareholders. According to this perspective, shareholders can use the board of directors to monitor executives and ensure a focus on long term value creation (Zahra, 1996). The board is seen as the mechanism of corporate control, and its principal function is to monitor and reward top executives for maximizing shareholders' wealth. Despite the importance that agency theory ascribes to the monitoring function and, thus, to the control role of a board of directors, it is important to note that service and strategic roles are also primary tasks of directors. In particular, agency theory assigns a premium value to the board's involvement in and contribution to the articulation of the firm's mission, the development of the firm's strategy, and the setting of guidelines for implementation and effective control of the chosen strategy (e.g., acquiring a new

firm, divesting a division, or entering a new market) (Baysinger and Butler, 1985; Zahra and Pearce, 1989).

There are two other interest approaches that can help in understanding board involvement and contributions within a firm: those proposed by institutional theory and by social network theory (Lynall *et al.*, 2003).

According to **institutional theory**, organizations reflect the enduring rules that have been institutionalized and legitimized by their social environments (Di Maggio and Powell, 1983). This perspective suggests that a board's composition and process reflect the prevailing institutionalized norms in the organizational field and society. Thus, a board of directors, in performing its tasks, is influenced by societal norms (Zayac and Westphal, 1996). While this theory does not propose a specific board role, it highlights the selection of the CEO, decisions about executives compensation, and explaining the adoption of CEO incentive plans to shareholders as the main functions of a board of directors.

Social network theory (Granovetter, 1985) suggests that demographic similarity among board members reflects the social networks of the principal stakeholders (Gulati and Gargiulo, 1999; Lynall *et al.*, 2003). According to this perspective, the board can enable the firm to create a network without the full cost of true vertical integration and benefit from the construction of network exchange structures, where different directors – especially the outsiders – are critical resource suppliers (Lynall *et al.*, 2003). Thus, this approach emphasizes the service role of the board, in view of the importance of network formation on the reputation, trust, reciprocity, and mutual interdependence of the firms (Larson, 1992).

We would now concentrate on the board's specific role in Corporate Entrepreneurship, drawing some observations from the different approaches discussed above.

Literature on a board's role in Corporate Entrepreneurship suggests various tasks in which directors can be involved in order to promote entrepreneurial activities[39]. Thus, on one hand, a board can establish safeguards against

[39] Bianchi Martini *et al*. (2006) wrote: "Il consiglio di amministrazione è l'organo centrale dell'assetto istituzionale delle società italiane e riveste un ruolo primario nel tracciare gli indirizzi

managerial opportunism and evaluate managers' activity in the exploitation of entrepreneurial opportunities. To champion and develop entrepreneurial initiatives, managers require motivation, opportunity and skills. Corporate Entrepreneurship activities are often time consuming, expensive and high risk. Hence, some managers may not have the sufficient motivation to cultivate these entrepreneurial activity. For this reason, a strong and vigilant board is essential to promote Corporate Entrepreneurship within a firm[40]. A strong and vigilant board is able to monitor executives' strategic decisions and align the interests of top management and shareholders (Zahra and Pierce 1989; Lynall *et al.*, 2003; Zahra *et al.*, 2009).

On the other hand, a board can also serve as a provider of resources that are essential for the firm to exploit new opportunities (Zahra and Pierce 1989; Lynall *et al.*, 2003; Hillman and Dalziel, 2003; Zahra *et al.*, 2009). Boards are a potential source of cognitive resources that may be valuable in the strategic decision

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di sviluppo dell'azienda", *La Governance delle Società Quotate*, Milano, Franco Angeli. Concerning the role of board A. Melis (2002), wrote: "Sebbene i ruoli e le responsabilità del Consiglio di Amministrazione mutano al variare delle concezione di corporate governance proprie di ogni prospettiva e contesto, la rilevanza di tale organo nel sistema di corporate governance appare essere un vero e proprio principio generalmente accettato. In generale è opportuno effettuare una distinzione fra le funzioni di management e quelle di corporate governante. […] all'Alta direzione spettano i compiti di management, mentre il Consiglio di Amministrazione svolge le funzioni di corporate governante. Nell'ambito delle funzioni di management rientrano le aree e le funzioni della gestione operativa delle attività aziendali e della pianificazione delle strategie e messa in atto delle politiche aziendali. Tali compiti spettano all'alta direzione (ed agli organi ad essa sottoposti). Nell'ambito della corporate governante rientrano le funzioni di supervisione dell'operato dell'alta direzione, dell'accountability nei confronti degli stakeholder aziendali riconosciuti come legittimi e dell'approvazione delle strategie aziendali. A tali ruoli è, o perlomeno dovrebbe essere, preposto il Consiglio di Amministrazione, inteso nel senso ampio del termine (ovvero comprendendo eventuali organi di controllo). Entrambi gli organi, Alta direzione e Consiglio di Amministrazione, dovrebbero essere coinvolti nel processo strategico […] Il Consiglio di Amministrazione, come supremo organo di amministrazione dell'impresa, assume, o perlomeno dovrebbe, un ruolo rilevante anche nella formulazione del processo strategico e nella implementazione delle conseguenti politiche aziendali", *Creazione di valore e meccanismi di corporate governante*, Milano, Giuffrè.

[40] Zattoni, A. (2006), wrote: "Secondo gli studiosi di management, il ruolo del consiglio di amministrazione nel processo decisionale strategico comprende varie attività, come l'identificazione del piano di azione in cui l'impresa intende operare (la cosiddetta strategia di portafoglio), la definizione della vision e della missione aziendale, la selezione delle varie alternative strategiche a disposizione dell'azienda. Il coinvolgimento attivo del consiglio nel processo decisionale strategico è solitamente considerato un fattore importante ai fini del raggiungimento di un solido vantaggio competitivo", *Assetti Proprietari e Corporate Governance*, Milano, Egea.

process (Forbes and Milliken, 1999; Rindova, 1999). Because of their backgrounds in other firms and industries, outside directors bring new knowledge (Johnson, Daily, & Ellstrand, 1996), fresh perspectives (Judge & Zeithaml, 1992), and different problem-solving styles (Rindova, 1999) to the decision-making task (Fiegener, 2005). Thus, a board can provide top management with access to external resources, and assemble and deploy these resources in combination with firm's existing resources, using these new combinations to explore and exploit new entrepreneurial opportunities.

Furthermore, a board can help a firm's top management team identify opportunities for growth by giving attention to Corporate Entrepreneurship and innovation activities (Uhlaner *et al.*, 2007; Zahra *et al.*, 2009). A board can encourage Corporate Entrepreneurship activities by focusing management's efforts on the pursuit of a viable long term strategy. Charan (1998) suggested that the boardroom is a potential source of creative thinking about new opportunities for growth. Directors can also use their different skills and experience to help top management discover and champion entrepreneurial opportunities. Thus, a director's knowledge and skills represent an important attribute in the board's strategic work (Zahra and Pearce, 1990; Huse, 1995). Literature has pointed out that directors often lack the appropriate skills to provide counsel or execute effective control over the CEO and management (Pearce and Zahra, 1992). Consequently, directors require various kinds of knowledge and skills to contribute to strategic decision making on the board. Without firm specific knowledge, the board can neither question the actions of management nor give advice on issues concerning products or the market. Additionally, the existence of general knowledge among directors may be a critical component of board's service effectiveness (Gabrielsson and Winlun, 2000).

Prior studies have examined the role of the board in sustaining Corporate Entrepreneurship focusing primarily on agency problems (Jones and Butler, 1992; Zahra 1996; Zahra *et al.*, 2000; Fiegner, 2005; Brunninge *et al.*, 2007). Agency theory (Jensen and Meckling, 1976) suggests that promoting Corporate Entrepreneurship requires a strong and independent board that monitors, evaluates and challenges top management team (Zahra *et al.*, 2000). Researchers have

investigated board size, representation of outside directors, outside directors' stock ownership and the separation of CEO and chair position as conditions that affect the board's ability to monitor and evaluate management and encourage Corporate Entrepreneurship within the firm (Zahra 1996; Zahra *et al.*, 2000; Frigener, 2005; Brunnige *et al.*, 2007)[41]. Therefore attention has been focused only on the control function of the board, which requires evaluating company and CEO performance to ensure corporate growth and the protection of shareholders'

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[41] Concerning the size of boards of directors Zahra *et al.* (2000) wrote: "Larger boards usually have directors with different functional backgrounds, education, and experiences (Alexander. Fennell, & Halpern. 1993; Goodstein, Gautam, & Boeker. 1994), which is conducive to CE (Kanter, 1986). Larger boards can also effectively connect the company to its competitive environment and give the firm information about its domestic and international markets.[..]Beyond some point, increasing the size of the board may actually become dysfunctional and reduce CE. As the board continues to grow, communications may break down and coordination among directors may decline (Clendenin, 1972). This, in turn, reduces directors' abilities to effectively participate in board deliberations and adequately monitor management (Sanders & Carpenter, 1998).[..] Given the relationship between board size and its ability to process information effectively, CE will initially rise as the size of the board increases, but then begin to fall at a point where adding more members becomes dysfunctional," *Entrepreneurship in Medium Size Companies: Exploring the Effects of Ownership and Governance Systems*, Journal of Management, 2000, Vol. 26, No. 5, 947-976, p. 954. Concerning the representation of outside directors, they wrote, "Some research has shown that the proportion of outsiders on a company's board is positively associated with directors' strategic involvement (Johnson et al., 1993; Judge & Zeithaml. 1992). This involvement usually enables directors to become familiar with the firm's innovation and venturing initiatives. Outside directors' knowledge of different companies competing in domestic and international markets may further broaden the board's perspective and alert executives to promising CE opportunities. In this capacity, outside directors can also serve as active boundary spanners between the company and its external environment - a role that can promote CE (Miller, 1983)," *Entrepreneurship in Medium Size Companies: Exploring the Effects of Ownership and Governance Systems*, Journal of Management, 2000, Vol. 26, No. 5, 947-976, p. 955. However, literature has different beliefs about this relationship. In particular, Judge and Zeithaml (1992) suggested that boards can be more effective and involved when insiders are better represented because there may have been better information flow within the boardrooms. Concerning outsiders' stock ownership, Zahra *et al.* wrote: "Increased stock ownership can motivate outside directors to become more actively involved in monitoring management and ensuring an effective alignment between the interests of executives and shareholders (Kren and Kerr, 1997; Johnson *et al.*, 1993). Ownership can also empower outside directors to challenge management (Finklestein, 1992)." Concerning CEO duality they wrote: "Agency theorists propose that by separating the positions of the chair and the CEO, directors will have greater independence in performing their roles of monitoring, evaluating, and disciplining the CEO (Daily and Dalton, 1997). When the CEO and board chair positions are separated, the CEO is less able to control the agenda of the board meeting. Under these conditions, directors can encourage the firm to focus on long-term activities by tying executives' rewards and compensation to the pursuit of CE and using support of long-term initiatives as a criterion in evaluating CEO performance (Zabra, 1996)., *Entrepreneurship in Medium Size Companies: Exploring the Effects of Ownership and Governance Systems*, Journal of Management, 2000, Vol. 26, No. 5, 947-976, p. 955-956.

interests (Chapin, 1986). Kuratko *et al*. (1993) stressed the importance of control and evaluation for corporate entrepreneurship. Kanter (1989) also considered formal controls essential for corporate entrepreneurship project selection (Antoncic and Hisrich, 2004). Thus, the board serves as a keeper of shareholders by monitoring management to ensure that shareholders' interests are pursued (Johnson *et al*., 1996; Lynall *et al*., 2003). The board serves as a wealth protector (Filatotchev and Wright 2005; Zahra *et al*., 2009).

From a resource-based perspective (Barney, 1991; Barney *et al*., 2001) the board is a potential provider of resources used to promote Corporate Entrepreneurship and create new wealth (Pfeffer, 1972; Zald, 1969; Gabrielsson and Winlund, 2000; Filatotchev and Wright, 2005; Zahra *et al*., 2009). The board can provide knowledge and resources that enable executives to pursue entrepreneurial opportunities that benefit shareholders through improved firm performance (Keasy and Wright, 1993; Zahra *et al*., 2009). The board can identify viable opportunities for growth by giving attention to Corporate Entrepreneurship and innovation activities that allow the company to create new wealth; it is also a potential source of creative thinking about new opportunities for growth and innovative ideas. The board can share useful information for making effective strategic choices, and can ensure that members of the top management team have the knowledge, skills, and abilities to help the company grow (Hillman and Dalziel, 2003; Zahra *et al*., 2009; Tuggle *et al*., 2010). Finally, the board can align the interests of managers and the firm, thereby encouraging wealth creation and Corporate Entrepreneurship by providing resources (Huse, 2007).

The board's provision of resources involves a variety of specific activities, including providing legitimacy to the public image of the firm (Selznick, 1949), providing expertise (Baysinger and Hoskisson, 1990), administering advice and counsel (Lorsch and Maclver, 1989; Mintzberg, 1983), linking the firm to important stakeholders or other important entities (Hillman *et al*., 2001), facilitating access to resources such as capital (Mizruchi and Stearns, 1988), building external relations, diffusing innovation (Haunschild and Beckman, 1998), and aiding in the formulation of strategy and other important firm decisions (Judge and Zeithaml, 1992; Lorsch and Maclver, 1989). The theoretical

tie between these various activities is that they all focus on the board as a provider of resources (Hillman and Dalziel, 2003). According to resource based theory (Barney, 1991), these resource should ensure a firm's wealth creation.

As described above, prior studies have presented different roles for the board (Zahra and Pearce, 1989; Johnson *et al*., 1996; Uhlaner *et al*., 2007; Petrovic, 2008). Several theories have been put forward to explain the role of the board and its impact on firm performance. Several researchers have indicated that the board's primary roles are service and control (Berle and Means, 1968). Service means enhancing the company's reputation, establishing contact with the external environment and giving counsel and advice to executives (Louden, 1982). The control role involves evaluating the adequacy of the organizational, administrative and accounting structure, and the general performance of the company and CEO to ensure corporate growth and the protection of shareholder wealth (Louden, 1982). Other researchers have suggested that the board may be actively involved in strategic decisions through counsel and advice to the CEO, by initiating their own analyses, or by suggesting alternatives (Pfeffer, 1972).[42]

[42] The *Corporate Governance Code* describes the functions of Board of Directors as follow: "The Board of Directors shall: a) examine and approve the strategic, operational and financial plans of both the issuer and the corporate group it heads, monitoring periodically the related implementation;; it defines the issuer's corporate governance and the relevant group structure; b) define the risk profile, both as to nature and level of risks, in a manner consistent with the issuer's strategic objectives; c) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer as well as of its strategically significant subsidiaries in particular with regard to the internal control system and risk management; d) specify the frequency, in any case no less than once every three months, with which the delegated bodies must report to the Board on the activities performed in the exercise of the powers delegated to them; e) evaluate the general performance of the company, paying particular attention to the information received from the delegated bodies and periodically comparing the results achieved with those planned; f) resolve upon transactions to be carried out by the issuer or its controlled companies having a significant impact on the issuer's strategies, profitability, assets and liabilities or financial position; to this end, the Board shall establish general criteria for identifying the material transactions; h) perform at least annually an evaluation of the performance of the Board of Directors and its committees, as well as their size and composition, taking into account the professional competence, experience (including managerial experience) gender of its members and number of years as director. Where the Board of Directors avails of consultants for such a self-assessment, the Corporate Governance Report shall provide information on other services, if any, performed by such consultants to the issuer or to companies having a control relationship with the issuer; i) taking into account the outcome of the evaluation mentioned under the previous item g), report its view to shareholders on the professional profiles deemed appropriate for the composition of the Board of Directors, prior to its nomination; j) provide information in the Corporate Governance Report on (1) its composition,

We consider that all these functions may be encapsulated in two main roles. The first role is control and monitoring function. According to this perspective, one of the main tasks of the board is to protect shareholders' wealth by ensuring manager accountability and minimizing agency cost (Zahra *et al.*, 2009). The second is the "entrepreneurial" function (Uhlnaer *et al.*, 2007). Thus, the second main task of directors is to create new wealth by providing new knowledge and resources, giving advice to executives to promote innovative activities, aiding in the strategy's formulation and giving attention to Corporate Entrepreneurship (Judge and Zeithaml, 1992; Short *et al.*, 1999; Filatotchev and Wright, 2005; Zahra *et al.*, 2009; Tuggle *et al.*, 2010). Thus, the board of directors should balance between wealth protection and wealth creation in order to ensure, encourage and promote Corporate Entrepreneurship within the firm[43].

This approach leads to some important questions: (i) how should a board of directors that must balance minimizing agency problems and creating new wealth be structured? (ii) how should a board designed to balance these important tasks function? (iii) What structural and functional differences might there be between a board designed to protect shareholders' value, and a board designed to create new wealth (Filatotchev and Wright, 2005)?

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indicating for each member the relevant role held within the Board of Directors (including by way of example, chairman or chief executive officer, as defined by article 2), the main professional characteristics as well as the duration of his/her office since the first appointment; (2) the application of article 1 of this Code and, in particular, on the number and average duration of meetings of the Board and of the executive committee, if any, held during the fiscal year, as well as the related percentage of attendance of each director; (3) how the self-assessment procedure as at previous item g) has developed; k) in order to ensure the correct handling of corporate information, adopt, upon proposal of the managing director or the chairman of the Board of Directors, internal procedures for the internal handling and disclosure to third parties of information concerning the issuer, having special regard to price sensitive information".

[43] The need for this balancing effect originates from a series of compromises that a firm mast make to ensure an adequate level of Corporate Entrepreneurship. In particular, we refer to compromises concerning level of strategy, culture, structure, control, and human resources, as discussed in the first chapter. For example, Antoncic and Hisrich (2004) argued that formal controls for monitoring entrepreneurial activities are positively associated with Corporate Entrepreneurship, but may, when excessive, inhibit Corporate Entrepreneurship and wealth creation, *Corporate entrepreneurship contingencies and organizational wealth creation,* Journal of Management Development, 2004, Vol. 23, I. 6, p. 518-550).

In the next section we attempt to examine how board's composition, characteristics, structure and process may influence wealth creation and wealth protection.

2.2. The board's attributes and their influence on Corporate Entrepreneurship

Zahra and Pearce (1989), after a review of the principal theoretical perspectives, identified four "board attributes"[44]: composition, characteristics (demographic characteristics and board personality), structure and process.

Board composition includes the size of the board and the mix of director types. Size refers to the number of directors in the board room. Type refers to the widely recognized dichotomy between inside and outside directors[45] and the

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[44] Attributes determine a board's undertaking of its role and, ultimately, its contributions to company performance. They are the results of the review conducted by Zahra and Pearce (1989) of the theoretical perspective on the roles of board of directors and described in the previous page of this work.

[45] The Italian *Corporate Governance Code* sets that "2.P.1. The Board of Directors shall be made up of executive and non-executive directors, who should be adequately competent and professional. 2.P.2. Non-executive directors shall bring their specific expertise to Board discussions and contribute to the adoption of fully informed decisions paying particular care to the areas where conflicts of interest may exist. 2.P.3. The number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgment may have a significant impact on the taking of Board's decisions. 3.P.1. An adequate number of non-executive directors shall be independent, in the sense that they do not maintain, directly or indirectly or on behalf of third parties, nor have recently maintained any business relationships with the issuer or persons linked to the issuer, of such a significance as to influence their autonomous judgment". The UK *Combined Code of Corporate Governance* recognizes a specific task of non executive directors, pointed that "Non-executive directors should scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning" (A.4). Moreover, the Code highlights that "The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate" (A.4.1). Concerning the board composition and the definition of insider and outsider Fortuna F. (2002) wrote: "La composizione del Board si caratterizza per la contemporanea presenza di amministratori esecutivi e non esecutivi, tra i quali quelli indipendenti. Ai primi sono attribuiti deleghe e funzioni direttive; gli amministratori non esecutivi, invece contribuiscono, con le proprie competenze, alla predisposizione di opportune azioni strategiche e

representation of minorities. Outsiders[46] are not members of the top management team, their associates, or families; are not employees of the firm or its subsidiaries; and are not members of the immediate past top management group (Jones & Goldberg, 1982). They also have contacts outside a firm and typically bring a broader range of experience because of their contacts with different companies and industries (Kesner, 1988). Insiders are board members who are current or former employees of a firm or who are otherwise closely affiliated with the firm (Judge and Zeithaml, 1992). Minority representation refers to the status of ethnic minorities and the representation of females on the board. These directors are presumed to reflect the values of society at large, not only those of shareholders (Zahra and Pearce, 1989).

Characteristics consists of two components. The first, directors' background, includes the age, educational background, values and experience of directors. These qualities manifest themselves in the choices that directors make (Hambrick, 1987). Literature concerns "demographic characteristics" (Petrovic, 2008). Previous scholars have highlighted a positive link between directors' demographic similarity and interpersonal trust, which results in a more open communication among board members, more frequent informal social interaction among them, and greater willingness to share concerns about strategy in board meetings (Westphal and Bednar, 2005).

The second component concerns those qualities that go beyond directors' individual or collective characteristics and reflect the "personality" of the board. Board scholars have suggested that boards develop their own personalities, with

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di controllo", *Corporate Governance – Soggetti, Modelli e Sistemi*, Milano, Franco Angeli. Actually the importance of a right mix of insider and outsider appears also in the Corporate Governance code that maintain "The non-executive directors enrich the Board's discussion with competences formed outside the company, having a general strategic character or a specific technical one. Such competences permit to analyze the different matters under discussion from different standpoints and, therefore, contribute to nourish the dialectics that is the distinctive precondition for a meditated informed corporate decision. The contribution of non-executive directors appears to be useful on such subject matters in which the interests of executive directors and those of the shareholders may not coincide, such as the remuneration of the executive directors and in relation to the internal control and risk management systems".

[46] Outsider can be non executive or independent directors, see Zattoni, A. (2006), *Assetti Proprietari e Corporate Governance*, Milano, Egea.

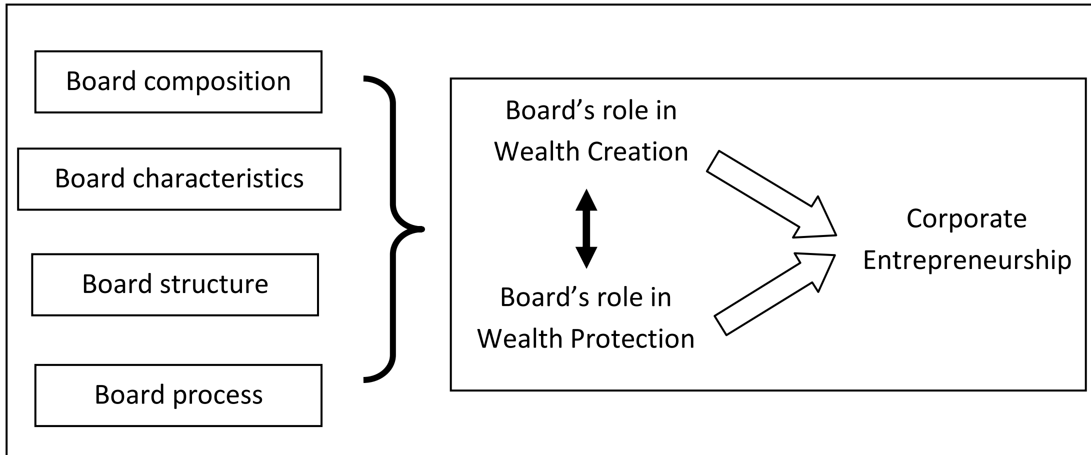
distinct styles or modes of operation (Lynch, 1979; Mueller, 1981). This personality reflects a board's disposition to focus on internal issue, such as efficiency, rather than external issues (Pearce, 1983); the level of directors' independence from management influence (Geneen, 1984); and directors' vested interest in the firm as evidenced by stock ownership (Kesner, 1987). Board personality is believed to be more enduring than the characteristics of individual directors (Lynch, 1979). This personality is thought to change only if a quantum change occurs in board composition and directors' background variables (Zahra and Pearce, 1989).

Board **structure** refers to the dimensions of the board's organization. Most decision making by directors takes place in smaller groups or committees (Bacon and Brown, 1973). The Corporate Governance Code and the Supervisory Agency (e.g. SEC, and Consob) have considered these subgroups an important tool for monitoring corporate activity. Furthermore, members of these groups tend to hold the greatest power and influence over corporate affairs (Kesner, 1988). Thus, research on board structure covers the number and types of committees, committee membership, the flow of information among these committees, board leadership, and patterns of committee membership.

Process involves the approach the board takes in making decisions. Past research shows that the board process embodies five elements: the frequency and length of meetings, CEO-board interface, level of consensus among directors on issues at hand, formality of board proceedings, and the extent to which the board is involved in evaluating itself (Mueller, 1979; Vance, 1983). Researchers have argued that the context of a board's meeting—its degree of formality or informality—can shape the board in a way that either enhances or constrains the discussion of entrepreneurial issues. Meetings can be structured and run in a formal environment, reducing open communication. Alternately, meetings can be loosely structured and run informally in a casual environment, facilitating more open communication. Informal relationships can create a greater capacity for information sharing and mutual problem solving (Hansen and Lovas, 2004; Tuggle *et al*., 2010). In the following sections we will analyze how each attribute

can affect Corporate Entrepreneurship activity within the firm, and impact the board's ability to protect and create new wealth.

Figure 3. The influence of the board's attributes on Corporate Entrepreneurship



2.2.1. Board composition: size and types of director

As mentioned above, the attribute of composition mostly concerns the size of the board and the mix of director types.

Board size is a well-studied board characteristic. Researchers have found empirical evidence that the number of directors may influence how the board functions, and, thus, corporate performance. It may also influence the way directors perform their tasks (Fama and Jensen, 1983) and determine their abilities to promote Corporate Entrepreneurship (Van de Berghe and Levrau, 2004; Zahra *et al.*, 2000; Dalton *et al.*, 1999). In particular, the size of the board can affect directors' ability to quickly and effectively process information about Corporate Entrepreneurship (Haleblian and Finkeistein, 1993) and their motivation to focus on entrepreneurial issue. However, the same researchers have proposed different and conflicting results, as they have argued that board size can have both positive and negative effects on board performance.

Resource theory has been the primary foundation for the concept that larger boards will be associated with higher levels of firm performance (Mintzberg, 1983; Pfeffer, 1972, 1973; Pfeffer and Salancik, 1978). According to this view, board size could be a measure of an organization's ability to form environmental links to secure critical resources (Coodstein *et al.*, 1994). Expanding the number of directors provides an increased pool of expertise because larger boards are

likely to have more knowledge and skills at their disposal. Additionally, large boards may be able to draw on a variety of perspectives on corporate strategy and may reduce domination by the CEO[47] (Van de Berghe and Levrau, 2004). Consequently board size has been found to be positively related to company size, diversification (Pearce and Zhara, 1992) and internationalization (Sanders and Carpenter, 1998). These findings imply that larger boards are better able to make significant contributions in strategy development because they integrate multiple perspectives and are able to develop more holistic alternative solutions (Ruigrok *et al.*, 2006). Thus, larger boards are able to actively engage in the exploration and exploitation of new entrepreneurial opportunities, using the different networks of resources, knowledge and skills that directors are part of. As a board continues to grow, communication may break down and coordination among directors may decline (Clendenin, 1972). This, in turn, reduces directors' ability to effectively participate in board deliberations and adequately monitor management (Sanders and Carpenter, 1998). Increasing board size might significantly inhibit board processes because of potential group dynamic problems associated with large groups. Larger boards are more difficult to coordinate and may experience problems with communication and organization. Furthermore, large boards may face decreased levels of motivation and participation and may be prone to developing factions and coalitions (Van de Berghe and Levrau, 2004). Research on group processes has suggested that larger groups are associated with significant coordination costs (Ruigrok *et al.*, 2006). These cost may come from a number of sources: it has been suggested that larger boards have more difficulty meeting frequently. The greater number of perspectives in larger boards might lead to conflict among directors, which can produce distrust, hostility and decreased motivation (Amason and Sapienza, 1997). Communication might be more formal; if so informal methods of coordination may be less effective (Cohen and Bailey, 1997). As a result, larger boards tend to be slower in decision making

[47] Concerning the way that board of directors can use to reduce the nomination of CEO, Forbes and Milliken (1999), for example, argue that a strong and cohesive board can require CEOs to explain, justify and possibly modify their position on important strategic issues and to entertain alternative perspective, or can more easily decide for a CEO replacement.

and less cohesive (Mueller and Baker, 1997). Additionally in larger groups, there is less time during board meetings for individual directors to speak. Therefore, individual members can more easily act as free riders and minimize their contributions (Golden and Zajac, 2001). An agency perspective would imply that large boards are more easily controlled by the CEO, who can use tactics like coalition building and selective provision of information (Jensen, 1993). These considerations suggest that smaller boards may work better.

In effect, a smaller board can enhance directors' sense of participation and allow them to communicate more freely and frequently with the firm's senior executives. This participation often promotes cohesion among directors as they monitor and evaluate the CEO. For example, Jensen observed "When boards get beyond seven or eight people they are less likely to function effectively and are easier for the CEO to control" (1993: 865). Literature has also highlighted the fact that firms with greater growth opportunities tend to have smaller boards (Denis and Sarin, 1999). Moreover, prior scholars have shown that strategic board involvement requires active and cohesive directors who are able to intensely discuss and evaluate strategic opportunities during board meetings.

Thus, this stream of literature suggests that to protect shareholders' wealth, a smaller board can make the group of directors more cohesiveness, participative, and able to reach consensus (Lipton & Lorsch, 1992; Dalton *et al*., 1999). This cohesion can increase board vigilance over the CEO's decision making and curtail potential managerial opportunism (Yermack, 1996), and hence can increase the protection of shareholders' wealth. Thus, a smaller board is better able to support Corporate Entrepreneurship activities, and drae the attention of the CEO and executives to the exploitation of entrepreneurial opportunity, which that can ensure a certain level of wealth for the firm's shareholders.

However, to create new wealth for shareholders, a larger board may enable access to useful resources (Dalton *et al*., 1999), may operate as a potential source of creative thinking about new opportunities for growth (Tuggle *et al*., 2010), and may increase the ability of directors to process information about environmental and entrepreneurial opportunities to create wealth. Thus, a larger board may be better able to spur Corporate Entrepreneurship activities and advise and suggest

the exploration of new entrepreneurial opportunities to the CEO and Top Management Team. The exploitation of these activities can create new wealth for corporate shareholders.

Despite these considerations, we must recognize that a minimum number of directors is needed to guarantee the required balance between shareholder wealth protection and wealth creation and, thus, allow the board to fulfil its role in promoting and sustaining Corporate Entrepreneurship within the firm.

However, literature has highlighted some other important aspects that could complicate the evaluation of the influence of board composition on Corporate Entrepreneurship. For example, according to Fiegener *et al.*, (2000) smaller boards composed of a large proportion of directors who are somehow dependent upon the CEO via personal, professional, or economic relationships should be less powerful and less effective in the control role by virtue of the CEO's ability to influence individual directors (Baysinger and Butler, 1985; Chaganti, Mahajan, and Sharma, 1985). Conversely, larger boards that are composed predominantly of really independent directors should be more effective monitors of executive self-interest because these directors focus more on financial performance (Fama and Jensen, 1983; Johnson *et al.*, 1993), have an incentive to maintain their reputation (Fama and Jensen, 1983), and are not so indebted to the CEO (Patton and Baker, 1987).

These considerations show the need to consider other dimension of board composition: the mix of different types of directors. The proportions of insider/outsider representation on a board is the most studied variable in corporate governance literature (Judge and Zeithaml, 1992). Studies focusing on agency theory have suggested that outside directors may play an important monitoring function on the top management team (Clarysse *et al.*, 2007). Outsiders[48] can

[48] Bianchi Martini *et al.* (2006) wrote: "Viene infatti stabilito che tale organo [that is the Board of Directors] si compone di membri esecutivi (amministratori delegate ed amministratori con incarichi direttivi) e non esecutivi (amministratori non titolari di deleghe e che non ricoprono funzioni direttive). I Consiglieri non esecutivi devono essere inoltre, per numero ed autorevolezza, tali da garantire che il loro giudizio possa avere un peso rilevante nelle decisioni del Consiglio. Gli amministratori non esecutivi, in virtù della loro estraneità alla gestione aziendale, dovrebbero poter valutare con maggior distacco le proposte e l'operato dei delegati. Inoltre , sempre secondo il codice, un numero adeguato di amministratori non esecutivi devono avere la qualifica di

ensure the pursuit of long term wealth creation by monitoring executives and encouraging Corporate Entrepreneurship. They can also bring awareness of innovations and new opportunities from their own industries into a firm's boardroom (Hillman and Dalziel, 2003; Tuggle *et al*., 2010). Moreover, literature has suggested that outsiders are able to provide more objective oversight on strategic decision making than insiders (Judge and Zeithaml, 1992). From a resource based perspective, outsiders can better provide access to scarce or strategic resources (Lynall *et al*., 2003, Tuggle *et al*., 2010).

These capabilities suggest that outsider directors play a crucial role in wealth protection and creation, but a question remains: how and by whom are outsiders selected? Literature has suggested that new board members will be recruited using rational criteria to increase diversity on a board (Hillman and Dalziel, 2003). Thus, a board should be comprised of individuals with a range of different types of human and social capital that complement one other (Clarysse *et al.*, 2007). Furthermore, a social network perspective suggests that board members will be recruited from the social network of the stakeholders in power. These considerations could suggest that a board with a large number of outside directors can improve the level of control over top management team and increase the possibility of discovering and exploiting new opportunities to increase the level of Corporate Entrepreneurship. However, some doubts have been raised concerning whether outsiders are, in fact, in good position to make real contributions to

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"indipendenti", ossia: -non devono avere relazioni economiche con la società, con le sue controllate, con gli amministratori esecutivi o con gli azionisti di controllo, di rilevanza tale da influenzare l'autonomia di giudizio; -non devono essere titolari di partecipazioni azionarie che consentono loro di esercitare il controllo o un'influenza notevole sull'azienda; -non devono partecipare a patti parasociali per il controllo dell'azienda; -non devono essere stretti familiari di amministratori delegati o di soggetti che si trovano in posizioni previste dai punti precedenti", *La Governance delle Società Quotate*, Milano, Franco Angeli. Concerning the USA context, Stuart and Kamensky (2002) wrote: "To be independent under the Act, an audit committee member may not accept any consulting, advisory, or other compensatory fee from the company, except in his or her capacity as a member of the board or a board committee. Further, no member of the audit committee may be affiliated with the company, presumably meaning, subject to SEC rulemaking, that no one may be a member of the audit committee who has an influence, direct or indirect, over the management of the business or the affairs of the company or any subsidiary, or who is affiliated with a controlling shareholder", Sarbanes-Oxley Act of 2002 Imposes New Rules for Corporate Governance and Reporting, *Bankruptcy Bulletin Sarbanes-Oxley Act of 2002*, Pub. L. No. 107-204, 116 Stat. 745, September.

Corporate Entrepreneurship (Ruigrok *et al.*, 2006). First, we argue that if outside board members have human and social capital that are too different from the capabilities, skills, and knowledge within the firm, their contributions to Corporate Entrepreneurship may be limited[49]. Most importantly, outside board members have only limited time that they can invest in any individual board mandate (Ruigrok *et al.*, 2006). They consequently lack the intimate knowledge and expertise concerning firm procedure and decision making. This is aggravated by the existence of board norms that make many topics problematic to discuss publicy(Lorsch and McIver, 1989). Given these informational disadvantages, outside directors could be more oriented toward measures of financial control; this orientation might reinforce executive behaviour that is short-term and low-risk oriented (Baysinger and Hoskisson, 1990).

These considerations are reflected in the finding that firms with higher growth opportunities have fewer outsiders on their boards (Denis and Sarin, 1999). Studies that focused on strategic choice perspective (Judge and Zeithaml, 1992) have shown that boards tend to be more effective when insiders[50] are better represented because they have better information flow within the boardroom. Prior researchers have found that insider representation is positively associated with strategy innovativeness (Hill and Snell, 1988) and the level of corporate R&D spending (Baysinger *et al*, 1991). Insiders have firm-specific knowledge and familiarity with the firm's markets and established networks (Tuggle *et al*., 2010). They have useful information about the firm, its history, its strategy and its

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[49] Concerning this point, the Corporate Governance Core sets: "(3.C.3) The number and competences of independent directors shall be adequate in relation to the size of the Board and the activity performed by the issuer; moreover, they must be such as to enable the constitution of committees within the Board, according to the indications set out in the Code". Despite this norm we retain the problem mentioned in the text still relevant.

[50] The Corporate Governance Code defines insider (or executives): "(2.C.1) -the managing directors of the issuer or a subsidiary having strategic relevance, including the relevant chairmen when these are granted individual management powers or when they play a specific role in the definition of the business strategies;- the directors vested with management duties within the issuer or in one of its subsidiaries having strategic relevance, or in a controlling company when the office concerns also the issuer; - the directors who are members of the executive committee of the issuer, when no managing director is appointed or when the participation in the executive committee, taking into account the frequency of the meetings and the scope of the relevant resolutions, entails, as a matter of fact, the systematic involvement of its members in the day-to-day management of the issuer".

management style. Evidence suggests that insider directors are key elements in wealth creation as well.

Therefore, in order to create new wealth, a board should achieve a balance between inside and outside directors. This balance is an important condition for real effectiveness of a board. Literature has suggested that outsiders are able to protect shareholders' interests, given their independence from the CEO and top management team; they are also providers of new resources and skills that can help firms explore new entrepreneurial opportunities[51]. However, a large number of outsiders, without sufficient inside directors, will not be able to convert new skill and capabilities into real opportunities given their lack of firm information and trust of the CEO and top management team. Thus, insiders could be considered catalysts of knowledge and opportunities provided by outsiders. This suggests that to support and improve the level of Corporate Entrepreneurship within a firm a majority of insiders is desirable.

2.2.2. Board characteristics: demographic traits and board personality

We now concentrate our attention on the second board attribute, as suggested by Zahra and Pearce (1989). According to literature, board characteristics consists of two components: demographic characteristics of the board and its personality. Both are important in terms of board involvement on Corporate Entrepreneurship. For instance, previous scholars have highlighted a positive link between these characteristics and greater willingness to share concerns about strategy in board meetings (Westphal and Bednar, 2005). Furthermore, these characteristics reflects a board's disposition to focus on internal issue, rather than external issues (Pearce, 1983).

Demographic characteristics

A board's cognitive frames and its directors' traits play an important role in an organization as well as in a number of organizational outcomes (Lorsch and

[51] Concerning the role of outsiders Andrews wrote: "Independent directors are supposed to introduce ideas and perspectives from the outside, serving as a window to the word", K. Andrews (1981), Corporate Strategy as a Vital Function of the Board, *Harvard Business Review*, November-December.

MacIver, 1989). However, it is the heterogeneity or homogeneity of these traits among board members that affects how they work individually and together.

Homogeneity is linked to a propensity to maintain the status quo, and can contribute to strong consensus and strategic continuity (Murray, 1989; Tuggle *et al.*, 2010). However, homogeneous groups can exhibit conformity and a lack of openness to new information (Wiersema and Bantel, 1992). A homogeneous board may be less inclined to introduce new ideas and discuss entrepreneurial issues but it can promote comfort among similar individuals, leading to the development of greater trust in a short period of time. In this view, homogeneity may enhance rather than restrict the openness of boardroom discussion. Thus, homogeneity may play an important role in integrating a team or reducing conflict (Tuggle *et al.*, 2010). Demographic similarities between group, top management team, and board members has been linked to interpersonal attraction and their tendency to like, trust and interact more frequently and effectively with others they perceive to be similar to themselves (Williams and O'Reilly, 1998; Li and Hambrick, 2005; Petrovic, 2008). Generally, similar members are more likely to predict each other's behaviour, which, in turn, contributes to less misjudgment, greater trust, more effective communication and, ultimately, faster consensus (Adobor, 2004). Westphal and Bednar (2005) found a positive link between directors' demographic similarity and their interpersonal trust, which resulted in more open communication among board members, more frequent informal, social interaction among them, and greater willingness by individual directors to share concerns about strategy in board meetings. Additionally, attraction among board members has been considered to influence an individual member's behaviour because it leads to higher levels of commitment to the board, which in turn affects the board's ability to work together, that is, its effort norms (Petrovic, 2008).

Heterogeneity, on the other hand, represents diversity in a team's cognitive bases. Diversity on a board suggests a broader set of perspectives on decision making (Sawyer *et al.*, 2006). The heterogeneity of demographic traits can lead to greater diversity of information sources and perspectives, as well as to more creative or innovative discussion (Murray, 1989; Wiersema and Bantel, 1992). However, heterogeneity can also lead to group conflict and difficult decision

making (Cannella *et al*., 2008). Literature has suggested that an effective board of directors will be composed of a group of professionals who bring a range of skills, experience and diversity to the company, and the competing views that different directors can bring to board discussions can result in creative solutions (Hill and Jones, 1998; Petrovic, 2008).

Tuggle *et al*., (2010) observed that heterogeneity on a board of directors affects discussion on entrepreneurial issues. Heterogeneity considers the age, educational background, value and experience of directors. Zahra and Pearce (1989) highlighted the board characteristics that can influence a director's role. A board should be composed of people with the right mix of personalities, education, skills, and connections to encourage Corporate Entrepreneurship (Van Den Berghe and Levrau, 2004; Zahra *et al*., 2009). Directors should have a certain degree of accountability, and a certain level of knowledge on low and industry of the firm, and experience in directing a company (Van Den Berghe and Levrau, 2004). A board that includes different skills, capabilities, knowledge and information can become a strategic resource to distinguish firm in the competitive environment. A heterogeneous board can provide useful resources to explore and exploit new entrepreneurial opportunities. Such a board can also provide valuable information for making entrepreneurial decisions and suggest innovative initiatives that will allow shareholders to improve their wealth (Fiegener, 2005; Zahra *et al*., 2009). From this perspective, a board with diverse backgrounds can enhance Corporate Entrepreneurship activities.

Furthermore, a board's heterogeneity also influences the monitoring function and the protection of shareholder wealth. A board with different knowledge and capabilities can better control the validity and truthfulness of the information from the top management team. Such a board can also ensure that management has the necessary resources to pursue entrepreneurial activity and encourage top management team risk taking. From this perspective, a board with diverse backgrounds can promote Corporate Entrepreneurship within a firm. However, diverse backgrounds and beliefs about an issue that a board must debate may generate conflict. Moderate amounts of cognitive conflict can, in turn, enhance board effectiveness because cognitive conflict results in the use of a

critical and investigative interaction process that may require CEOs to explain, justify, and possibly modify their positions on important strategic issues (that means wealth protection) and in processes such as the consideration and more careful evaluation of alternatives, which contribute to the quality of strategic decision making (that means wealth creation) (Forbes and Milliken, 1999, Petrovic, 2008). Consequently, companies have in recent years been increasingly pressured to appoint directors with diverse backgrounds and expertise to provide the variety of perspectives that modern businesses are purported to require (Ingley and Van der Walt, 2003)[52]. Therefore, it seems that directors' diverse backgrounds are positively associated with a board's ability to promote and enhance Corporate Entrepreneurship. The literature suggests that highly diverse groups are negatively associated with group cohesiveness but positively associated with cognitive conflict, whereas highly homogenous groups are positively associated with group cohesiveness but negatively associated with cognitive conflict. Consequently, the studies that focus on effective board functioning recommend a "balanced" approach (Petrovic, 2008). This entails, having enough diversity to encourage the sharing of information and active consideration of alternatives, but enough collegiality to sustain mutual commitment and make consensus-reaching practicable within the tight time frames in which boards operate (Langevoort, 2001). This last consideration suggests that a board's heterogeneity influence Corporate Entrepreneurship in a nonlinear way; the relationship is initially positive as the heterogeneity of a board increases but becomes negative as the heterogeneity of the board becomes excessive.

Personality of the board

Zahra and Pearce (1989) wrote that the second dimension of board characteristics is the "personality" of the board. A strong, independent and

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[52] In Comment section of the Corporate Governance Code, the Committee maintain: "The Committee wishes that the shareholders, when preparing the lists and subsequently appointing directors, evaluate, also in light of the opinion expressed by the Board on such an item, the professional characteristics, the experience, including managerial competencies, and the gender of the candidates, in relation to the size of the issuer, the complexity and specificity of the business sector in which the issuer operates, as well as the size of the Board of Directors."

collaborative board is important to promote and enhance Corporate Entrepreneurship within a firm (Zahra 1996). Agency theory suggests that a board with these characteristics can better monitor and encourage managers to support and pursue entrepreneurial activities (Jensen and Meckling, 1976). A strong and independent board is objective and interested in the protection of wealth (Baysinger & Hoskisson, 1990). A strong board also serves as a sort of discipline for top management team because increase their responsibility in the strategy formation process (Judge and Zeithaml, 1992; Gabrielsson and Winlund, 2000).

Forbes and Milliken (1999) claimed that boards that have standards and expectations for promoting high-effort behaviors among members such as devoting sufficient time to the role, actively seeking information, and actively participating in board discussions, are more likely to perform their monitoring and entrepreneurial roles effectively. Nadler (2004) proposed that on an effective board, members are expected to be honest, constructive, willing to ask questions and challenge others, willing to actively seek out other directors' views and contributions, and spend appropriate time on important issues[53]. These norms – the board's social systems or "board culture" as Nadler (2004) termed it – come from the directors' shared beliefs about active preparation and participation, as well as from their shared values concerning the directors' respect for one another and personal responsibility and accountability for the company's prosperity. Nadler (2004) further argued that each board's distinct culture is why directors doing the same work with identical structures and similar composition perform differently. For example, "passive boards", which are governed by formality and reserve, perform differently from "engaged boards," whose culture is characterized by directors' willingness to challenge and which reflect the dynamics of a high-performance team (Nadler, 2004; Petrovic, 2008).

[53] The Corporate Governance Code set: "(1.C.2) The directors shall accept the directorship when they deem that they can devote the necessary time to the diligent performance of their duties, also taking into account the commitment relating to their own work and professional activity, the number of offices held as director or statutory auditor in other companies listed on regulated markets (including foreign markets) in financial companies, banks, insurance companies or companies of a considerably large size. The Board shall record, on the basis of the information received from the directors, on a yearly basis, the offices of director or statutory auditor held by the directors in the above-mentioned companies and include them in the Corporate Governance Report."

To enhance Corporate Entrepreneurship it is important for a board of directors to work as a team. Board members should collaborate, respect each other and be positive. A board must attempt to stimulate dialogue and interaction among its members. A board of directors should follow a common vision or interest, and must work to develop the right chemistry and encourage cohesiveness. The moral principles and values of board members should be indisputable. Moreover, trust between members is essential. Finally, directors should have a sense of humour and should meet outside the boardroom at informal occasions (Van Den Berghe and Levrau, 2004). A collaborative board allows directors to spend more time discussing valuable entrepreneurial opportunities using their mix of knowledge and skills (Huse, 1998; Forbes and Milliken, 1999) to maximize shareholder wealth. Thus, a board's strong personality is positively associated with its ability to promote and enhance Corporate Entrepreneurship.

2.2.3. Board structure: composition and number of committees

The third attribute identified by Zahra and Pearce (1989) is board structure. The contribution of this element to board performance is relevant because we believe that the effectiveness of a board may be affected not only by its composition and size but also by its internal administrative structure. Board structure concerns a board's organization (Zahra and Pearce, 1989) and involves the rules that exist to make the board more efficiently (Huse, 1995; Gabrielsson and Winlund, 2000). It covers the number and types of committees as well as committee membership[54] (Zahra and Pearce, 1989; Demb and Neubauer 1992; Huse 1995).

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[54] The Corporate Governance Code maintain: "An organizational procedure that may increase the efficiency and effectiveness of its works is represented by the establishment among its members of specific committees having consultative and proposing functions. Such committees, as it appears from the best Italian and international practices, far from replacing the Board in the performance of its duties, may usefully carry out a preliminary role - which is represented by the formulation of proposals, recommendations and opinions - for the purpose of enabling the Board to adopt its decisions with a better knowledge of the facts. Such role may be particularly effective in relation to the handling of matters, which appear to be delicate also because they are a source of potential conflicts of interest."

Board committees work toward the more effective operation of the board (Van Den Berghe and Levrau, 2004). Committees are important tools to monitor corporate activities, and play a valuable role in the protection of shareholder wealth (Kesner, 1988). Klein (1995) evaluated the effects of the committee structure of boards and directors' roles within these committees on board effectiveness. She proposed a committee structure with specialized roles to enhance board performance in productivity and monitoring. Thus, she identified two different categories of committee: productivity and monitoring committee. Here, productivity can be assimilated to the entrepreneurial role of the board, and includes board involvement in decision-making processes about strategic and entrepreneurial issues and the decisions that affect the creation of new wealth for shareholders.

Monitoring refers to board involvement in the evaluation and control of the activity of senior management, particularly in ensuring that senior management is engaged in the pursuit of entrepreneurial activities, even if these are high-risk activities. Thus, each board committee should specialize in either entrepreneurial (Uhlnaer *et al.*, 2007) or monitoring issues, and these committees should be staffed by the board members most likely to achieve these goals. Thus, boards should use committee structures to facilitate, evaluate, and confirm long-term investment decisions and to monitor the performance of senior management[55].

Given these considerations, we can hypothesize a strong relationship between the presence of committees and the level of Corporate Entrepreneurship within a firm. In particular, from an agency perspective, board committees can allow directors to better perform their control role. The specialization of committees and the large amount of information that directors can share during meetings increase the potential to monitor executives and protect shareholder wealth[56]. Furthermore, from a resource-based perspective some board committees

[55] A. Zattoni (2006) wrote: "In risposta alle crescenti responsabilità che gli vengono attribuite dalla noramtiva e dai codici di autodisciplina, molti consigli hanno creato dei comitati a cui delegano l'analisi e la formulazione di proposte alternative in merito ad un particolare problema," *Assetti proprietari e corporate governante*, Milano, Egea.

[56] An example of this perspective can be represented in the implementation of the Audit Committee; "Quest'ultimo ha compiti e responsabilità che possono essere classificati secondo due ottiche: una di tipo organizzativo, relative alla valutazione dei piani e dell'azione dell'Internal

can enhance the involvement of directors in entrepreneurial activities[57] (Harrison, 1987). Directors must be well prepared to participate in committees (Huse, 1995; Gabrielsson and Winlund, 2000) so they can better inform the whole board about the resources they can provide for the growth of the firm. They can also suggest to the top management team how to utilize the resources to exploit new entrepreneurial opportunities, create new wealth for shareholders and enhance Corporate Entrepreneurship[58]. Thus, we can hypothesize that the number of board committee is positively associated with that board's ability to promote and enhance Corporate Entrepreneurship[59]. In particular, the monitoring committees[60]

Audit; l'altra informativa, ossia di comunicazione, almeno ogni semestre, sull'adeguatezza del sistema [dei controlli interni] nel suo complesso." F. Fortuna (2002), *Corporate Governance*, Milano, Franco Angeli.

[57] A. Melis (2002) wrote: "Migliorando il funzionamento degli organi di governo e di controllo direzionale delle grandi imprese, il sistema di corporate governance può favorire una maggiore efficacia del processo decisionale a livello direzionale verso l'obiettivo della creazione di valore, favorendo l'individuazione delle scelte migliori circa gli investimenti da compiere e diminuendo il rischio che il soggetto economico scelga determinate investimenti che perseguono fondamentalmente solo il proprio interesse personale, anche quando quest'ultimo va a scapito del perseguimento della creazione di valore." *Creazione di valore e meccanismi di corporate governance*, Milano, Giuffrè Editore.

[58] We refer in particular to the productivity committees (Klein, 1995). Concerning this point, Zattoni (2006), for example, wrote: "L'executives committee […] ha il compito di contribuire attivamente alla formulazione e alla realizzazione della strategia aziendale." *Assetti proprietari e corporate governance*, Milano, Egea.

[59] The regulation and Corporate Governance Code, provide, especially for the listed firms, the possibility of implement some committees. In particular, the Corporate Governance Code maintain: "For this reason, in the articles below, the Code recommends the establishment of a nomination committee (Article 5), a remuneration committee (Article 6) and a control and risk committee (Article 7), defining their composition and competences. (5.C.1.) The committee to propose candidates for appointment to the position of director shall be vested with the following functions: a) to express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board as well with regard to the topics indicated by articles 1.C.3. and 1.C.4.; b) to submit the Board of Directors candidates for directors offices in case of co-optation, should the replacement of independent directors be necessary. (6.P.3.) The Board of Directors shall establish among its members a remuneration committee, made up of independent directors. Alternatively, the committee may be made up of non executive directors, the majority of which to be independent;; in this case, the chairman of the committee is selected among the independent directors. At least one committee member shall have an adequate knowledge and experience in finance or remuneration policies, to be assessed by the Board of Directors at the time of his/her appointment. (6.P.4.) The Board of Directors shall, upon proposal of the remuneration committee, establish a policy for the remuneration of directors and key management personnel. (7.C.2.) The control and risk committee, when assisting the Board of Directors shall: a) evaluate together with the person responsible for the preparation of the corporate financial documents, after hearing the external auditors and the

(audit, compensation and nomination) can have a positive effect on promoting Corporate Entrepreneurship, while productivity committees[61] (finance, investment and strategic) can have a positive effect on enhancing Corporate Entrepreneurship within the firm.

The second important aspect of board structure is committee membership, which refers to the composition of each committee. Prior researchers have principally investigated committee membership in terms of type, gender and occupation of directors (Kesner, 1988; Klein, 1995; Spira and Bender, 2004). In particular they found that the presence of outside directors in committees facilitates the strategic and monitoring roles of a board because they can provide their experience, external associations and knowledge, and can be more objective[62]. Klein (1995) observed that productivity-oriented committees are staffed primarily by insiders, whereas monitoring-oriented committees are comprised primarily of outside directors. Her findings also suggest the following: (i) Monitoring committees (audit, compensation and nominating) are disproportionately comprised of directors independent of management. On the other hand, productivity committees (finance, investment and strategic issues) are disproportionately comprised of directors employed by the firm. (ii) There is a positive relationship between the percentage of outsiders on monitoring

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Board of statutory auditors, the correct application of the accounting principles, as well as their consistency for the purpose of the preparation of the consolidated financial statements, in any; b) express opinions on specific aspects relating to the identification of the main risks for the company; c) review the periodic reports of the internal audit function concerning the assessment of the internal control and risk management system, as well as the other reports of the internal audit function that are particularly significant; d) monitor the independence, adequacy, efficiency and effectiveness of the internal audit function; e) request the internal audit function to carry out reviews of specific operational areas, giving simultaneous notice to the chairman of the Board of statutory auditors; f) report to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity carried out, as well as on the adequacy of the internal control and risk management system. Sometimes, the firms can create other committee to execute the tasks that the normative provide. They are the executives committee, the strategic or ethic committee, the corporate governance committee, the compliance committee, see A. Zattoni (2006). *Assetti proprietari e corporate governance*, Milano, Egea.

[60] Concerning this classification see Klein (1995).

[61] Concerning this classification see Klein (1995).

[62] Actually, the normative and the Corporate Governance Code set that some committees (in particular the audit commit) have to be composed of non executive directors, some of which independent directors.

committees and the factors associated with the benefits of monitoring, such as the firm's outstanding debt and free cash flow. (iii) There is a positive relationship between the proportion of insiders on productivity committees and measures of firm productivity such as relative net income, productivity of capital expenditures, and stock market returns (John and Senbet, 1998). In terms of composition, Kesner (1988) maintained that major board committees are composed of directors with business experience to facilitate the monitoring role of the board.

Considering these prior findings we believe that the presence of one or two members of the management team in board committees can help directors perform their roles in the protection and creation of shareholder wealth[63]. Despite the fact that prior research has found a negative relation in the interaction between a board and the top management team (Kor, 2006)[64], we consider that having members of

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[63] Actually, this sentence requires a clarification. The normative refuse the presence of executive directors in some committees, especially the monitoring committees. Despite this point, our research seems suggest that the presence of one or two executives in the committees rooms can facilitate their role in term of monitoring and productivity. However, the topic is quite relevant and can open some interest question for further research. This because it can be true that the presence of executives in the committees can enhance directors' involvement in Corporate Entrepreneurship, but the presence of executive in the committee room may also raise a certain level of embarrassment. We refer, for example, to the situation in which a committee must evaluate the actions of the CEO. The executive in the committee can feel embarrassed to take decision about his or her chief and thus limit the decision-making ability of the committee. This aspect can originate a different perspective on the role of executive in the committees that can be deepened in future research. Concerning the composition of committees, see the articles 5, 6 and 7 of the Corporate Governance Code.

[64] Kor (2006) highlighted two kind of interaction: "The first interaction effect concerns situations where highly tenured executives work with an outsider-rich board, which may result in the emergence of two groups with opposing views on R&D strategy. Managers with high firm tenure may be reluctant to invest heavily in R&D as these investments may pay off in the long term, whereas the board of directors, guarding the interests of shareholders, may advocate a high R&D intensity with expectations of superior returns. The polarized views of managers and outsider directors may result in conflicts and hostility in management-board interactions. Especially, when *both* the top management team and the board are powerful because managers are long tenured in the firm and the board is rich with outsiders representing the shareholders' interests, rival factions may develop at the upper ranks (Pearce and Zahra, 1991). Rising tensions and the polarization of views may weaken the communication between the board and the team (Sundaramurthy and Lewis, 2003), leaving outsiders with a bigger information disadvantage. In response to outsider directors' attempts to promote R&D investments, managers may withhold information (Walsh and Seward, 1990) and engage in interpersonal tactics (e.g., persuasion) to control these investments (Westphal, 1998). […] Managers may use their superior firm-specific knowledge to justify to the board their preference in moving some of the R&D funds to other functions and investments which may be inherently less risky. Also, tenure driven strong managerial power limits the board's

the management team in committees allows directors – especially external directors – to become more familiar with information about day-by-day operations and make decisions and valuations on executive activity and entrepreneurial opportunity for growth.

Thus, we can hypothesize that the presence of one or more members of the management team in the committees is positively associated with the board's ability to promote and enhance Corporate Entrepreneurship. However, if this presence becomes too elevated, the power of the management team increases, as does the possibility of prejudice, and the board may be able to protect the interest of firm shareholders (Kor, 2006).

2.2.4. Board process: modes of operation

The last attribute that we want to analyze to understand the board involvement in Corporate Entrepreneurship is board process.

Board process refers to the board's organization (Zahra and Pearce; 1989) and focuses on the rules that exist to make the board work more efficiently (Huse, 1995). As mentioned above, mechanisms that can help the board work more

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ability to control managerial actions (Pearce and Zahra, 1991; Shen, 2003). The board may want to promote potentially profitable, but risky, R&D investments; however, tenured managers who have become increasingly powerful and entrenched in the firm may be able to constrict the board's efforts at the expense of shareholders' interests (Cannella and Shen, 2001; Singh and Harianto, 1989; Zajac and Westphal, 1996). […] Thus, as management teams with high firm tenure interact and negotiate with outsider-rich boards, firm's R&D investment intensity will be compromised". The second interaction refers to the shared-team specific experience: "Shared experience in the top management team provides managers with in-depth knowledge of each other's abilities and idiosyncratic habits and strengthens the team's collective confidence (Eisenhardt and Schoonhoven, 1990; Penrose, 1959). However, the top management team's collective confidence also empowers managers to more easily pursue goals that serve their interests instead of those of shareholders. When a powerful and confident management team interacts with a board with a high percentage of outside directors, certain conflicts become unavoidable (Pearce and Zahra, 1991). Even though these conflicts may concern agency issues such as executive compensation and excessive firm growth rather than R&D decisions, they may produce negative spillover effects on a firm's R&D investments. When the management team and the board do not get along and cannot maintain a healthy dialogue due to power struggles, the firm may abandon its dominant logic of developing and renewing innovative capabilities. In the midst of conflicts and power struggles, managers may not be able to keep their eyes on the ball and carry on a high R&D strategy to sustain the innovativeness of the firm. Therefore, bringing together managers with high levels of shared team-specific experience and a board with a high percentage of outsiders can constrain R&D investments," *Strategic Management Journal*, Vol. 27, Issue 11, p. 1081-1099:1086, 1087.

efficiently include the frequency and length of meetings, CEO-board interface, the level of consensus among directors on issues at hand, the formality of board proceedings, and the extent to which the board is involved in self-evaluation (Mueller, 1979; Vance, 1983). In this section, we will concentrate our attention on formal board routines, the existence of a formal evaluation of boardroom performance and the frequency of board meetings (Demb and Neubauer, 1992; Huse, 1995).

Formal board routines include rules concerning board agenda, the convocation of the meetings, accurate protocols, and formal work divisions among the various directors (Gabriellson and Winlund, 2000). All these rules can help the board to achieve control over a business situation and make the right strategic decisions. The main tool that can facilitate performance of the board's role is good information (Demb and Neubauer, 1992). Thus, it is important that board agenda and the rules applied for the convocation of meetings provide all the information that directors need (Demb and Neubauer, 1992). An alert board with well-established reporting routines is the best preventer of the outright manipulation of data (Demb and Neubauer, 1992; Huse, 1995). It is also important to consider that the time available for outside directors can be limited (McNulty and Pettigrew, 1999); thus, director contact with the board should maximize opportunities to contribute to monitoring and entrepreneurial issues (Gabriellson and Winlund, 2000). Providing the right information to outsiders is an important part of making dialogue efficient. It is also important to distribute required written information in a timely manner to facilitate fast and accurate decision making (Demb and Neubauer, 1992; Gabriellson and Winlund, 2000). Thus, from an agency perspective formal board routines can help a board of directors perform its monitoring role, protect shareholder wealth and ensure a high level of Corporate Entrepreneurship. From a resource based perspective formal board routines can be opportunities to increase involvement in the strategic decision making process, as, if directors receive appropriate information in a

timely, they can take time to consider different and complementary opportunity that can be suggested during the meeting[65].

Another important component of the board process is the existence of any system to evaluate board performance (Demb and Neubauer, 1992; Huse, 1995). However, empirical evidence about the evaluation of board performance shows that this is not common practice among boards, despite the fact that a formalized system for board evaluation is one of the main requirements in many corporate governance codes[66] (Minichilli *et al.*, 2007). Moreover, board members are increasingly becoming involved in setting company objectives, hiring, firing, compensating the CEO and asking discerning questions (Lorsch, 1995; Conger *et al.*, 1998). Thus, board members are seen as strategists more than as controllers, and the board of directors is a highly valued organizational resource that has the potential to contribute to entrepreneurial development (Huse, 2005; Minichilli *et al.*, 2007). Through an evaluation process, board members can develop a better

[65] The Code of Corporate Governance sets: "(1.C.5.) The chairman of the Board of Directors shall ensure that the documentation relating to the agenda of the Board are made available to directors and statutory auditors in a timely manner prior to the Board meeting. The Board of Directors shall provide information in the Corporate Governance Report on the promptness and completeness of the pre-meeting information, providing details, *inter alia*, on the prior notice usually deemed adequate for the supply of documents and specifying whether such prior notice has been usually observed."

[66] The Italian Corporate Governance Code sets: "(1.C.1.) [the board of directors] g) perform at least annually an evaluation of the performance of the Board of Directors and its committees, as well as their size and composition, taking into account the professional competence, experience (including managerial experience) gender of its members and number of years as director. Where the Board of Directors avails of consultants for such a self-assessment, the Corporate Governance Report shall provide information on other services, if any, performed by such consultants to the issuer or to companies having a control relationship with the issuer; h) taking into account the outcome of the evaluation mentioned under the previous item g), report its view to shareholders on the professional profiles deemed appropriate for the composition of the Board of Directors, prior to its nomination; i) provide information in the Corporate Governance Report on (1) its composition, indicating for each member the relevant role held within the Board of Directors (including by way of example, chairman or chief executive officer, as defined by article 2), the main professional characteristics as well as the duration of his/her office since the first appointment; (2) the application of article 1 of this Code and, in particular, on the number and average duration of meetings of the Board and of the executive committee, if any, held during the fiscal year, as well as the related percentage of attendance of each director;; (3) how the self-assessment procedure as at previous item g) has developed." A. Zattoni (2006), wrote: "una valutazione periodica del consiglio potrebbe aiutare gli stessi consiglieri a prendere coscienza del proprio ruolo e delle proprie responsabilità, facilitando così la creazione di un organo maggiormente efficace." *Assetti proprietari e corporate governace*, Milano, Egea.

understanding of what is expected from them individually and from the board collectively (Atkinson and Salterio, 2002; Cascio, 2004). In this sense, evaluation can have the potential to enhance board effectiveness. The adoption of board evaluations might also activate a mechanism of external accountability, which is likely to contribute to the dynamic processes of building trust and reputation (Daily and Dalton, 2003). A formal and regular board evaluation practice could, therefore, be a means of advertising the fairness, transparency and quality of the board's work (Minichilli *et al.*, 2007). Thus, the existence of any system of performance evaluation can help directors perform their control role as it can stimulate their sense of responsibility. At the same time, board performance evaluation can help the board perform its entrepreneurial role, increasing members' inclination to suggest and promote new initiatives to the CEO and to participate with more involvement in the strategic decision-making process.

Finally, board directors need adequate time to make effective decisions (Conger *et al.*, 1998). Thus, the frequency of board meetings is important for the board to perform its functions and satisfy its legal responsibilities (Demb and Neubauer 1992; Huse, 1995). Board meetings are the key means of informing and involving directors (Tuggle *et al.*, 2010). The boardroom is also the place where directors can discuss the firm's opportunities and evaluate management operations. The frequency of board meetings is also important for the board to perform its control and entrepreneurial roles (Demb and Neubauer, 1992; Huse, 1995). The board cannot be expected to monitor firm performance and suggest innovative initiatives if they are not given sufficient opportunities (Demb and Neubauer, 1992; Huse, 1995). It is also important that information be accessible to all members of the board (Andrews, 1981) and that board meetings be a way to inform all directors, both inside and outside. Board meetings should be frequent enough to let the board issue continuous reports concerning the firm's situation. From an agency perspective frequent meetings allow the board to better control management activities to protect shareholder value (Gabrielsson and Winlud, 2000). From a resource based perspective frequent meetings enable outside directors to interact with insiders and to become well-informed about firm activities. This can stimulate the entrepreneurial thinking of outsiders, enabling

them to better direct the resources provided to exploit new opportunities and enhance Corporate Entrepreneurship. Thus, we hypothesize that the frequency of board meetings may have an influence on the board's ability to promote and enhance Corporate Entrepreneurship.

Chapter 3. The influence of a major shareholder on the board's role in sustaining Corporate Entrepreneurship

3.1. The impact of ownership structure on Corporate Entrepreneurship

According to agency theory, as shown in Zahra and Pearce (1989), one of the most important antecedents to the monitoring and entrepreneurial roles of a board of directors is ownership concentration. This is because distribution of ownership has important implications for the efficiency and strategic development of a firm (Williamson, 1964)[67]. Literature has shown that when shareholders are concentrated, information asymmetries are low[68], shareholder ability to remove a management team is high, and managers are likely to feel constrained to pursue initiatives that are in the shareholders' interest (Hill and Snell 1989). Thus, executives' support of Corporate Entrepreneurship may be higher when a significant shareholder who appreciates the value of long-term investments monitors and encourages executives to emphasize Corporate Entrepreneurship activities (Zahra *et al.*, 2000).

Prior research has focused particular attention on the relationship between ownership structure and identity[69] and R&D investment (Lee and O'Neill, 2003; Tribo *et al.*, 2007; Munari *et al.*, 2010). R&D investment is a specific types of firm expenditure on outcomes that are neither immediate nor certain. R&D is

[67]According to Hoskisson *et al.* (2002), "We focus on equity holders because their interests with regard to innovation differ from those of debt holders. Debt-holders have a low interest in investing in R&D projects because they involve firm-specific resources. Research has shown that firm leverage has a negative relationship with investments in R&D (Balakrishnan & Fox, 1993; Baysinger & Hoskisson, 1989). Alternatively, equity holders have a residual claimant status and therefore generally have a stronger interest in projects using firm-Specific resources (Kochhar & Hitt, 1998)," *Academy of Management Journal*, Vol. 45, No. 4, 697-716: 697.

[68] Hill and Snell (1989) wrote "If information asymmetries exist between managers and stockholders, stockholders may lack the data necessary to pass judgment on the desirability of certain strategies. They may be unable to know when management is acting in their interest. This inability gives managers leeway to pursue strategies that are not in stockholders' best interest," *Academy of Management Journal*, Vol. 32, No. 1, pp. 25-46: 27.

[69] We refer to identity in term of identity of the owners and the stakes they hold in a company. We must underline that the aims of this study is investigate only the major shareholder of a firm to understand the relationship between type of owners and board's attribute. Thus, the analysis of the ownership structure will refer just to a first level of participation in a company, without try to investigate who is the final owner of the firm.

characterized by high levels of uncertainty, in terms of both goals and means. R&D generates negative cash flows for several months and in certain industries for several years, is highly contingent on human capital, and depends on both market and technology-based complementary assets for success (Teece, 1986; Munari *et al*., 2010) Despite this uncertainty, investment in R&D is crucial for the survival and growth of a firm. Thus, decisions regarding the allocation of R&D spending are very important for the future of the corporation. As these decision are made by management and are often in the interests of the shareholders, they are particularly indicative of the divergence between managers and shareholders' interests and highlight how ownership structure can affect managerial discretion. According to agency theory, shareholders might benefit from the high-risk strategies associated with aggressive R&D investment, as these strategies are associated with a high-return. Moreover, a firm can diversify the risk associated with innovation initiatives through a diversified portfolio of investments. However, managers' risk is inherently tied to the single firm in which they work and they cannot diversify this risk. Managers are thus naturally modeled as risk-averse and usually prefer short-term results through efficiency-seeking strategies (Munari *et al.*, 2010).

Three main issues make these problems particularly severe in R&D investment decisions (Baysinger *et al*., 1991; Lee, 2005; Tihanyi *et al*., 2003). First, even though a firm's innovation is expected to generate high profits (Hirschey, 1985; Jose *et al*., 1986), R&D activities are inherently risky as they can result in a wide variety of outcomes and may fail despite the best efforts of managers (Baysinger *et al*., 1991; Tribo *et al*., 2007). Second, R&D activities require long-term investments that may have a negative impact on more immediate performance (Hoskisson *et al*., 1993). Consequently, risk averse managers may be reluctant to invest in risky R&D projects. Third, R&D activities generally require high managerial autonomy to be effective (Hambrick and Finkelstein, 1987; Tribo *et al.*, 2007). However, risk-averse managers with a good level of discretion may use their power to pursue low-risk strategies, avoiding R&D initiatives and damaging firms' innovation output (Billings *et al*., 2004; Tribo *et al.*, 2007). Thus, the information asymmetry derived from the complexity

of innovative attempts combined with the large degree of managerial discretion needed to guide these projects may be used by risk-averse managers to avoid high risk and uncertain initiatives, even if they are in the best interests of shareholders (Tribo *et al.*, 2007). According to agency theory adequate governance mechanisms, lsuch as ownership concentration, can help a firm reduce agency costs and ensure an appropriate level of R&D investment, as governance managers' propensity to avoid R&D investment-heavy strategies (Tribo *et al.*, 2007; Demsetz and Lehn, 1985; Jensen and Meckling, 1976). Thus, researchers have found a strong relationship between ownership structure and investment in R&D.

Other scholars have focused their attention on the effects of ownership on corporate innovation strategies. For example Hoskisson *et al.* (2002) argued that different shareholders can have different beliefs and preferences about investment and strategic decisions. Thus, these differences can negatively affect corporate strategy initiatives as they can create confusion in the minds of top management and can affect the direction of investment decisions. To confirm this perspective Hoskisson *et al.* argued that owners typically perform two main functions. First, they allocate scarce resources to competing investments on the basis of their evaluation of the future outcomes. Second, they ensure the efficiency of investments, in terms of performance, by pressuring those who manage the investments to do better. After investing in a firm, investors can increase efficiency in two ways: exit and voice (Hirshman, 1970). Investors can exit selling their shares to indicate their non-alignment with management or their policies. However, exiting is expensive because selling large blocks of stock reduces the share price. Therefore, large shareholders have an incentive to exercise their voice through activism (Pound, 1992), which is primarily a matter of campaigning and voting at shareholder meetings (Hoskisson *et al.*, 2002). However, incentive and preference differences among owners may divide their voices and expectations. As a consequence they can lose their power and see the control that they exercise on management actions decrease. The interests of shareholders and managers can become increasingly misaligned; if this happens the exploration of new entrepreneurial initiatives can become a matter of secondary importance.

Thus, literature on this topic has highlighted a strong link between corporate innovation strategies and ownership structure. Corporate Entrepreneurship activities, R&D investment and corporate innovation strategies share the same characteristics in terms of risk and expected outcomes. All three share the uncertainty of results, the need for a long term view, an high willingness for risk activities, and the creation of information asymmetry between inside and outside participants in the corporate governance system. As some Corporate Entrepreneurship initiatives are invisible to external observers, managers can be encouraged to avoid investment in them because the risk to the firm and their position is too great[70] (Zahra, 1996). Thus, as agency theory has suggested, corporate ownership can affect managers' willingness to take risks (Jones and Butler, 1992). In particular, a major shareholder can monitor the CEO and encourage the pursuit of Corporate Entrepreneurship within the firm (Zahra, 1996; Zahra *et al.*, 2000).Studies on this field have focused on the influence of institutional ownership on the level of Corporate Entrepreneurship (Zahra 1996, 2000). Institutional investors usually include banks, pension funds, charitable organizations, universities, and insurance and investment companies (Blair, 1995). Agency theorists have proposed that large investors have a major incentive to monitor CEOs' decisions and commitments to Corporate Entrepreneurship, as the amounts of stock that these institutions usually hold gives them power over corporate managers (Davis and Thompson, 1994; Barclay and Holderness, 1991). According to Zahra *et al.* (2000) the challenge in this topic is to understand whether institutional owners actually perform this monitoring function and promote Corporate Entrepreneurship. Researchers have reported conflicting findings on the associations between institutional stock holdings and indicators of

[70] Zahra (1996) wrote: "Despite the potential contributions of entrepreneurial activities to value creation, executives may not support them. Such managerial risk aversion is a widely suspected cause of the perceived decline of the competitiveness of U.S. companies (Franko, 1989; Hoskisson & Hitt, 1994). Careerism and short term-based reward systems may discourage executives' pursuits of corporate entrepreneurship (Jacobs, 1991). Although investors can usually reduce their risk by holding diversified stock portfolios, executives cannot always diversify their risk, and some entrepreneurial activities have a high probability of failure (Zahra & Covin, 1995), a factor that can depress a company's short-term performance and lower executive compensation. As entrepreneurial failures can also damage executives' reputations and increase their risk of unemployment, they may induce managerial risk aversion. To counter this aversion, shareholders should use boards of directors to monitor executives to ensure a focus on long-term value creation," *Academy of Management Journal*, Vol. 39, No. 6, pp. 1713-1735: 1715.

high risk/high return investments (Bushee, 1998). These conflicting findings may be attributed to the fact that researchers have considered institutional owners as a homogeneous group (Bushee, 1998). In reality, different institutional investors can have different investment objectives and can originate significant variations in institutions' investment horizons, which can influence institutions' willingness to use their power to challenge managers and encourage Corporate Entrepreneurship (Zahra *et al.*, 2000). The different types of institutional shareholder are highlighted by the different kinds of relationships they have with the business and they influence managers' behavior[71]. Thus, the effect of institutional ownership on managers' support for Corporate Entrepreneurship may be better understood by considering the nature of the relationships between institutional investors and the companies in which they invest (Zahra *et al.*, 2000).

Similarly, we believe that to better understand how ownership structure affects Corporate Entrepreneurship within the firm, the different types of

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[71] Zahra *et al.* (2000) wrote: "Stock ownership can encourage and empower institutions to monitor the companies in their portfolios (Davis & Thompson. 1994). These powers can be used to promote managers' interest in and support for long-term value-creating activities such as CE. Institutional owners, however, may not be able to exercise their ownership power in all cases. Some institutions have business relationships with the companies in their investment portfolios. Executives can use these business relationships to co-opt institutions (David et al., 1998), thereby reducing the institutions' willingness and ability to exercise their ownership-based powers. Such business relationships, therefore, can constrain the ability of institutions to influence managers." Moreover, they wrote, "Brickely et al. (1988) identified three groups of institutional investors: pressure-sensitive, pressure-resistant and pressure-indeterminate. As defined by Brickley et al. (1988), pressure-sensitive institutions include insurance companies, banks, and nonbank trusts. These institutions usually have business relationships with the companies in which they hold stock. The profitability and success of these institutions often depend on maintaining strong relationships with the companies in which they invest. This dependence makes these institutions susceptible to the influence of company managers. These institutions, therefore, may not use their ownership power to promote long-term strategic initiatives (Kochbar & David, 1996), such as CE." […] "Pressure-resistant institutions, however, do not have close business relationships with firms in which they hold stock and, therefore, are not susceptible to being influenced by managers. These institutions usually include public pension funds, mutual funds, foundations, and endowments". […] "As such, pressure-resistant institutional investors are more apt to support long-term value-creating activities such as R&D (Kochhar & David, 1996) and CE (Zahra, 1996)". […] "Pressure-indeterminate institutions (i.e., corporate pension funds, brokerage houses, and investment counselors) have some relationships with the firms in which they hold stocks but the nature of these relationships is hard to define (Brickley et al., 1988). Consequently, these institutions will behave differently from one issue to the next, making it difficult to predict their overall influence on a company's strategic initiatives such as CE," *Journal of Management*, Vol. 26, No. 5, pp. 947-976: 951, 952.

shareholders that have power to influence management behaviour and entrepreneurial decisions should be analyzed. This is because significant differences between principals might affect the agency problems discussed above. Corporate Entrepreneurship, in particular, is a field where differences in owner characteristics can affect objectives and the time horizon of expected results (Bushee, 1998; Hoskisson et al., 2002; Porter, 1992). Confirmation on this perspective is provided by the institutional literature. For example, Whitley (1999) emphasized how the direction and management of firms can be analyzed in terms of the nature and interests of the major shareholder. The distinctions between types of shareholders and control can thus be linked to the characteristics required to perform innovation, such as direct involvement in managing businesses, knowledge of the business, risk-sharing and the scope of objectives (Munari *et al.*, 2010). Additionally, we believe that, as discussed in the previous chapter, one of the factors in innovating is the board of directors. According to social network theory and resource dependency theory, the board of directors is the expression of the network of the major shareholder and a consequence of the configuration of firm' resources. Thus, types of ownership affect Corporate Entrepreneurship activity both directly and indirectly through the board of directors. Shareholder identity affects the composition, characteristics, structure and process of a board. As a consequence, a board of directors may change its influence on Corporate Entrepreneurship activity if the major shareholder is family, another corporation, or the state. In the next section, we discuss how different shareholder identities influence the role that a board plays in Corporate Entrepreneurship.

3.2. The effects of interaction between ownership and the board on Corporate Entrepreneurship

According to Uhlaner *et al.* (2007), owner type[72] can influence the quality of two functions of the board of directors. Different shareholder types can have different effects on the monitoring and enterprise of the board, both directly and

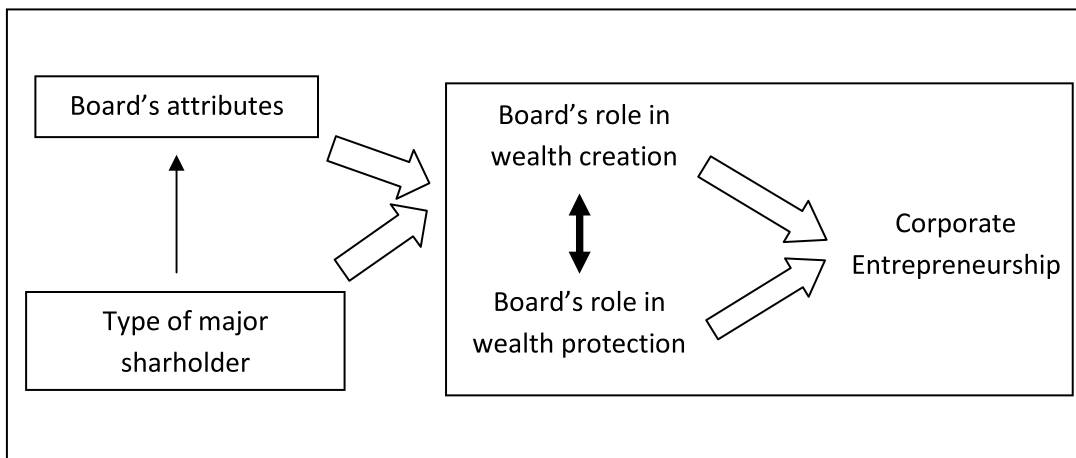
[72] We define ownership types in terms of identity of the owners and the stakes they hold in companies, according to the study of La Porta *et al.* (1999, p. 491), which identifies six main ownership types of publicly-traded companies around the world: widely-held, family controlled, state-controlled, controlled by a widely-held financial institution, controlled by a widely-held corporation, and a miscellaneous category.

indirectly, depending on board composition and characteristics. Thus, the issue is who selects board members, and by what standard (Clarysse *et al.*, 2007). We can identify three different perspectives that might explain the selection of board members. According to agency theory, the board of directors should be formed to monitor managers on behalf of shareholders (Eisenhardt, 1989). Thus, this perspective suggests that members of the board have monitoring as their principal task and that shareholders may select as directors people who are better able to preserve the interests and wealth of shareholders. In other words, shareholders should select directors who have the capacity to promote Corporate Entrepreneurship within the firm. According to resource dependency perspective, new board members should be recruited using rational criteria to increase diversity on the board (Hillman and Dalziel, 2003). In order for the board to monitor a venture effectively, it should be comprised of individuals with a range of human and social capital that complement one another. Moreover, different skills and capabilities can be considered a source of Corporate Entrepreneurship. Thus, shareholders that want to protect existing wealth and create new wealth, should select board members who have skills that complement the firm's capabilities. Finally, according to social network theory, the composition of the board may reflect the social networks of the principal stakeholders, such as the CEO and external financiers (Lynall *et al.*, 2003). The recruitment of individuals from existing social networks may reflect a desire by major shareholders to attract individuals similar to themselves (Forbes *et al.*, 2006) and with whom they can foster a high level of trust. These individuals are likely to have embedded relationships with firm shareholders because of the need for good working relationships for acting in the stakeholders' interests (Clarysse *et al.*, 2007; Uzzi, 1997). Thus, this theory suggests that shareholders should select board members from among their relationship networks to protect their interests and ensure that executives effectively pursue and enhance Corporate Entrepreneurship within the firm.

All these perspectives suggest that the type of major shareholder can influence board attributes and the way in which the board performs its two main roles. For instance, a firm where the major shareholder is a family may have

different requirements in terms of the composition and tasks of the board of directors, than a firm in which the major shareholder is another corporation. Moreover, major shareholder identity can also affect the working style and behavior of a board. For instance we suppose that members of a board who are representative of family shareholders may perform their roles with a different level of responsibility than those who represent state shareholders. In the next section we will investigate how family shareholders, shareholders from another corporation and state shareholders can affect the role of the board in Corporate Entrepreneurship.

Figure 4. The influence of a board's attributes and type of major shareholder on Corporate Entrepreneurship



3.2.1. When the major shareholder is a family

Family-controlled companies are the most common type of business around worldwide[73] (Bammens *et al.*, 2008). Despite their importance in economic development and the multitude of such businesses in many countries, studies on this issue have produced conflicting results. Agency theory suggests that family firms may either mitigate or exacerbate agency problems (Atmaja *et al.*, 2009).

A number of researchers have expressed worries about the problems associated with family control, and have highlighted the increased potential for the abuse of managerial power. Some researchers have shown evidence of a

[73] In an attempt to explain this phenomenon, La Porta *et al.* (1999) claimed the popularity of family controlled companies results from inadequate protection of investor rights by national institutions.

negative influence by a controlling family on corporate performance. In addition, strategy research has identified family firms to be altruistic in the relationship between parents and their children (Schulze *et al.*, 2001), which may have an impact on the effective succession process when the founder retires (Filatotchev *et al.*, 2005). Moreover, family interests may dominate those of non-family shareholders. This is because the concentration of personal and family wealth in owner-managed firms usually generates a preference for income and wealth preservation over other dimensions of firm performance such as the maximization of dividend payments to outside shareholders (Carney and Gedajlovic, 2003). Finally literature has shown that families can also have a powerful incentive to expropriate wealth from minority shareholders (Atmaja *et al.*, 2009). Faccio *et al.* (2001), for example, suggested that families tend to expropriate wealth when their control is greater than their cash flow rights. Villalonga and Amit (2006) found that families have a greater incentive to expropriate wealth from minority shareholders than from other blockholders, as their private benefits of control are not shared among independent owners. Anderson and Reeb (2004) similarly suggested that founding families may engage in self dealing by reducing firm risk, enriching themselves at the expense of minority investors, engaging in non-profit maximizing objectives, misusing the firm's resources, and generally representing their interests over those of the firm's other stakeholders. These arguments imply that the agency problem might be more prevalent in family firms (Atmaja *et al.*, 2009)[74].

However, other researchers have suggested different perspectives. The current prolonged recession, corporate scandals, and the collapse of stock markets have rekindled interest in the values prevalent in family-owned companies. Family businesses that survive their own internal succession dramas tende to take

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[74] L. Del Bene (2005) wrote, "La strutturazione ed il funzionamento del sistema di governance [nelle aziende familiari] si pongono come problema rilevante perché tali imprese sono caratterizzate da un'elevata influenza delle dinamiche familiari ed in questo senso un'adeguata progettazione dei sistemi e del funzionamento degli organi di governo può risultare funzionale al miglioramento delle performance. […] Allorquando si verifichi una distinzione tra proprietà e management si ripropongono dal punto di vista concettuale, per le aziende familiari, alcune delle problematiche tipiche delle aziende ad azionariato diffuso, nel senso che operano nell'impresa dirigenti diversi dai soci, e sono coinvolti nella gestione solo una parte di soci." *Aziende familiari: tra imprenditorialità e managerialità*, Torino, Giappichelli Editore.

a longer-term view rather than focus on the short-term stock market evaluation of their performance (Bruton *et al.*, 2003). Moreover, the family system is characterized by the extension of altruism to the firm, as owners one current generation are inclined and obligated to reserve wealth for the next. As a result, family firms often have longer lifespans than non-family firms (James, 1999). Family firms, therefore, correspond to a special class of major shareholders that may have a unique incentive structure, a strong voice in the firm, and the ability to powerfully motivate managers (Demsetz and Lehn, 1985). Anderson *et al.* (2003) suggested that these characteristics can moderate agency conflicts between the firms' debt and equity actors, along with agency behavior within the firm. Thus, because family wealth is so closely linked to firm welfare, families may have greater incentive to monitor managers and ensure that they are working to protect and create new wealth as more than other large shareholders or widely held corporations (Anderson and Reeb, 2003; Filatotchev *et al.*, 2005). And, as monitoring generally requires knowledge and information about the firm's technology and processes, families may be superior in this respect because of their lengthy involvement with the firm[75]. Indeed, La Porta *et al.* (1999) indicated that families are almost always involved in the management of the firm, which might be more likely to result in a good alignment between the interests of shareholders and managers. For this reason, scholars working from this perspective have argued that family firms are one of the most efficient forms of organizational governance; family firms have even been used as the zero agency cost base in finance research (Ang *et al.*, 2000).

Research on board roles and attributes in family firms, has focused on the significant role of the board in controlling agency problems to protect minor shareholders of the firm[76]. Indeed, Westphal (1998) suggested that since

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[75] Filatotchev *et al.* (2005) wrote: "In economies with immature capital markets and few professional managers, many family firms are established by obtaining capital and human investments from families and personal networks (McConaughy, Matthews, Fialko, 2001). Furthermore, through business networks, uncertainties and complexity are reduced because information is shared and circulated among the participants in the network, resulting in better monitoring of activities both within and between firms," *Asia Pacific Journal of Management*, Vol. 22, Issue 3, pp. 257-283. See also L. Del Bene (2005). *Aziende familiari: tra imprenditorialità e managerialità*, Torino, Giappichelli Editore.

[76] In this kind of firm is strong the conflict named "principal-principal".

governance mechanisms in family firms are limited, minority shareholders than to rely on their boards to monitor and control the family's opportunism. Anderson and Reeb (2004) found that the interests of minority shareholders are best protected when independent directors have greater power relative to family shareholders (Atmaja *et al.*, 2009). Thus, founding-family shareholders may be considered important stakeholders whose interests may not always align or overlap with outside shareholders. When the divergence between family and outside-shareholder interests becomes large and costly, independent directors can intervene to protect the interests of all shareholders.

Andreson and Reeb (2004) found that effective board structure in firms with family ownership requires a balance between family directors' interests and independent directors' objectivity. The implication is that family influence can provide some benefits to minority shareholders, but too much influence creates the potential for moral hazard conflicts between the family and outside shareholders. The literature has suggested an alternative explanation of the board's role within family firms. According to stewardship theory founding-family members may identify closely with the firm and view the firm's health as an extension of their own interests (Gomez-Mejia *et al*., 2003). Acting as stewards, families may place outside directors on the board to provide specific knowledge and objective advice or act as counsel for corporate health and viability (Lee and O'Neill, 2003). Thus, this perspective suggests that the board of directors in a family firm can be effective in monitoring and providing advice and new ideas on entrepreneurial development.

However, prior research has generally hypothesized that the board's effectiveness depends on directors being independent from senior managers. Independent directors provide expertise and objectivity that can minimize managerial entrenchment and expropriation (Dalton *et al*., 1998), especially when members of a family firm are the managers of the company. Bacon (1985) argued that independent directors provide greater candor in evaluating firm projects, in acquiring other firms, and in assessing intra and inter firm business relationships. Thus, in family firms, independent directors remain one of the primary lines of defense that outside shareholders can employ in protecting their rights against the

influence and power of large, controlling shareholders. To enhance firm performance, independent directors can potentially prevent families from directly expropriating firms' resources via excessive compensation, special dividends, or unwarranted perquisites (Anderson and Reeb, 2004). Independent directors can also impose structural constraints on the family by limiting their participation in important board subcommittees such as the audit , investment, nominating, and compensation committees. Perhaps one of the largest impacts that independent directors make in protecting outside shareholders from self-dealing families occurs when the board prevents an unqualified or incompetent family member from assuming the CEO post (Shieifer and Vishny, 1997). Given this, independent directors can play an influential role opposing family opportunism and protecting the rights of all shareholders, not just those of the dominant shareholder (Anderson and Reeb, 2004).

Thus, the literature on board role in family firms suggests that a board must focus on monitoring more than entrepreneurial tasks. The most important attribute that can influence the way in which board performs its role is composition. A sufficient number of outsiders on the board allows the interests of minor shareholders to be protected. Moreover, the presence of outside directors can also ensure that the firm focuses its attention on opportunities that, despite the high risk, could improve firm growth and wealth. This is very important in family firms, where the family-founding team can be oriented toward the maintenance of current wealth for future generations and away from entrepreneurial opportunity because entrepreneurial failure can compromise firm performance and value. These considerations suggest that the board of directors can play an important role in establishing a high level of Corporate Entrepreneurship within the firm. Indeed, directors can protect and create shareholder wealth, ensuring that family members act in the interest of the company. Thus, the board should ensure that entrepreneurial opportunities are pursued and that the wealth these opportunities generate will not be expropriated by the family. For this reason we believe that the characteristics, structure and process of the board can influence its role in family firms.

A board with a heterogeneous group of directors that is not necessarily comprised of members of the network of the major shareholder can better protect and create new wealth for the firm's shareholders. In the same way, a board in which there are a high number of committees with members independent of the major shareholder can better pursue Corporate Entrepreneurship. Finally, we believe that a board characterized by formal board routines, the existence of formal evaluation of boardroom performance, and a good frequency of board meetings can help directors monitor management operations and ensure that a high level of entrepreneurship will be pursued within the firm.

3.2.2. When the major shareholder is another corporation

The second type of major shareholder that we have to consider is corporate investors. This kind of ownership is characterized by the presence of one or more established firms among the shareholders. In many countries, corporations are among the largest blockholders (Claessens *et al.*, 2000). These shareholders usually have a great deal of investment experience and can provide significant benefits to firms involved in certain business agreements by reducing the costs of monitoring alliances or ventures between firms and their corporate blockholders (Allen and Phillips, 2000; Duoma *et al.*, 2006).

Understanding the influence that this type of shareholder can have on a board's role in Corporate Entrepreneurship requires, first of all, recognition of the reasons that drive the decision of an established firm to invest in another firm. The literatures has shown two main explanations for this sort of decision.

The first is a simple collateral investment for financial gain (Dushnitsky and Shaver, 2009). This suggests that a firm where the major shareholder is another company is characterized by a system of corporate governance in which the board has broad power over top management to protect and create shareholder wealth. Indeed, a major shareholder that lacks knowledge and expertise must rely on the board of directors to evaluate decisions of the top management team. Thus, in this kind of firm, the board of directors becomes the most important mechanism of corporate governance to protect shareholders from management's opportunistic behavior. Moreover, in this kind of firm, the board of directors is one of the most important instruments in supporting and pursuing entrepreneurial activities

(Zahra, 1996; Zahra *et al.*, 2000). For this reason, board attributes assume a great deal of importance in term of enabling the board of directors to perform their monitoring and entrepreneurial roles. Literature has showed that four board conditions - the size of the board, representation of outside directors, outside directors' stock ownership, and the separation of the CEO and chair positions - are believed to affect the board's ability to monitor and evaluate management and encourage Corporate Entrepreneurship within the firm (Zahra *et al.*, 2000)[77].

The second explanation suggested by literature to understand which factors drive an established firm to invest in another firm is that companies often decide to invest in other companies with related business. This choice allows the investing firm to develop knowledge, skills, and competencies that can improve its performance and growth (Thomsen and Pedersen, 2000). Under some conditions, this "corporate venture capital" (Gompers and Lerner, 2001) might lead the investing firm to pursue its own interests and undertake actions that adversely affect the firm being acquired. Thus, the relationship between a corporate investor and an entrepreneur is sensitive to the venture's overlap with the corporate parent's existing businesses (Hardymon, DeNino, and Salter, 1983; Hellmann, 2002). This consideration suggests that the firm acquired might well consider the corporate investor's participation in the firm's activity with suspicion. In particular, the acquired firm can identify opportunistic behavior in the corporate investor based on whether it appropriates the innovative ideas of the firm or develops its projects internally (Dushnitsky and Shaver, 2009). Thus, the board of directors plays a very important role in coordinating and balancing the interests of major shareholders and the firm's top management team. Directors must ensure that managers are working in the interest of the firm and its

[77] Tribo *et al.*, 2007 wrote: "Those block holders that are keener to stimulate R&D investment will have more incentives to extract superior returns from these investments in comparison with others less interested in these investments. Specifically, given the above considerations concerning different types of block holders, we expect corporate owners to be more efficient in channeling R&D investment into productive outcomes. They have more experience in taking part of different R&D projects, either in the same firm or in other companies. This improves the skills of corporate owners (learning-by-doing) in managing R&D-intensive projects which should translate into superior returns from these investments," *Corporate Governance*, Vol.15, N. 5 pp. 828-842: 833.

shareholders and are undertaking activity that can improve firm value and wealth. If top management in the firm lacks trust in the board and the firm's ownership structure, it may decide to avoid high-risk/high-return opportunities to discourage and dissuade investment by corporate shareholders. The right mix of outsiders and insiders, a good structure and a formalized process seem to be the most important board attributes to ensure a firm's involvement in Corporate Entrepreneurship activities. Indeed, outside directors, who may belong to the major shareholder's network, can monitor management activity and commitment to innovative activities. If outside directors have extensive knowledge and business expertise, they can evaluate and suggest different development opportunities. Furthermore, a board characterized by the presence of committees, by the possibility of having more meetings and summits, by good levels of information and communication among different members of board and with different key functional managers of the firm can better ensure a balance between the interests of shareholders and operations of management.

However, literature has widely recognized the importance of ownership structure and the identity of the major shareholder in shaping how a board is involved in Corporate Entrepreneurship (Baysinger *et al.*, 1991; Brunninge *et al.*, 2007; La Porta *et al.*, 1999; Uhlaner *et al.*, 2007; Zahra, 1996; Lynall *et al*. 2003). Despite this, the literature has not extensively investigated what can happen in terms of corporate governance when a major shareholder is another corporation. Future research in this field may better clarify this.

3.2.3. When the firm is state controlled

The last shareholder identity we study is the state. This includes firms that have in their ownership structure the state or an institution that can be ascribed to the state (e.g. regions, provinces, etc.). La Porta *et al.* (1999) considered firms under state control in a separate category because it is a form of concentrated ownership in which the state uses firms to pursue political objectives while the public pays for the losses (Shleifer and Vishny, 1994). Other researchers have discredited this argument, showing that principles of good management and governance can be applied to state-controlled firms to serve the public interest

(Onida, 1965; Anselmi, 2001)[78]. However, state and public entities comprise one of the principal groups of owners around the world. La Porta *et al.*, 1999 found that 70 percent of the largest traded firms in Austria, 45 percent of those in Singapore, and 40 percent of those in Israel and Italy are state-controlled. Massive post-war state ownership around the world.

However, the state cannot be considered the final shareholder of firms. Rather, the state is the agent of the last true shareholder, the citizenry (Guthrie *et al.*, 2008). This perspective suggests that in state-controlled firms, the agency problem is enhanced. First of all, in this kind of firm, control of both management and shareholders is important. The problem here is that citizens, the final shareholders, cannot have the same instruments and knowledge to evaluate the activity of the state and of management. Moreover, the aims that incentivize the State can be quite different from the interests of the final shareholders. These

[78] See: AA.VV (a cura dell'accademia Italiana di Economia Aziendale), *Pubblica amministrazione. Prospettive di analisi e di intervento*, Milano Giuffrè, 1984, and E. Borgonovi, *L'impresa Pubblica*, Milano, Giuffrè, 1979, and G. Bruni, *Le imprese pubbliche in economia d'azienda*, Verona, Libreria Dante Editrice, 1968. S. Sabetta (2007) wrote: "Le public utilities sono passate nell'arco di un decennio dalla forma di azienda municipalizzata alla società per azioni con crescente autonomia dall'ente locale, questo in un ambiente sempre più competitivo e pertanto imponendo un funzionamento sempre più rassomigliante alle imprese private. La contemporanea quotazione alla borsa valori di molte di esse (AMGA, AEM, ACEA, ASM, ecc.) ha comportato un radicale cambiamento nei rapporti con l'ente locale favorendo sia l'autonomia dall'ente che la massimizzazione del valore del titolo azionario in termini sempre più staccati da logiche politico-sociali. Se la letteratura sostiene la necessità di ridurre la quota in forza degli azionisti pubblici o disegnare sistemi di corporate governance che amplino i margini di discrezionalità del management al fine di ridurre l'influenza del pubblico, tale risultato non è stato facilmente raggiunto considerando anche il fallimento di alcune privatizzazioni dal punto di vista della soddisfazione dell'interesse pubblico. E' sorta la necessità di porre in equilibrio una maggiore autonomia ed esigenze di tutela dell'interesse pubblico, tale risultato lo si può ottenere attraverso un sistema di corporate governance che garantisca una accresciuta autonomia del management e mantenendo contemporaneamente una presenza forte dell'interesse pubblico nell'assetto proprietario. L'intervento di terzi nel capitale ha comportato una accresciuta complessità gestionale a fronte di una aumentata concorrenza. La mancata autonomia del management nella gestione viene a compromettere la sopravvivenza dell'impresa in un contesto liberalizzato, d'altronde gli attori pubblici non sono orientati di per sé alla massimizzazione del profitto. Analisi hanno evidenziato che vi è una relazione positiva tra il livello di concentrazione della proprietà e la performance di impresa, un'azionista di maggioranza è infatti più impegnato nella gestione che nell' ipotesi di una notevole dispersione azionaria, tuttavia tale osservazione conduce a riflettere sulle dinamiche di una forte concentrazione della proprietà pubblica, con i propri obiettivi sociali, senza un altrettanto forte correttivo sul sistema di governance che favorisca l'autonomia gestionale.

differences can create conflicts of interest and collusion that may have consequences on firm performance and growth.

Furthermore, in this kind of firm, is the “public subject” that nominates the members of top management and not the final shareholders. Thus, the typical form of control over top management activity is lost, as the interest of the agent is not necessarily increasing firm performance and removing managers who act against the interests of the firm and the shareholders.

These considerations suggest that the board of directors may play an important role in the protection and creation of shareholders’ wealth. When the state is a major owner, it is especially important for the board of directors to appear legitimate and accountable to the public. For this reason, when the government owns major stakes in the firm, the firm tends to have more outside directors on the board. The more outside directors on the boards, the more state-owned firms appear to be legitimate and accountable to the public. Moreover, from an agency theory perspective, because shareholders of state-owned firms are citizens, who are dispersed and have little incentive to monitor management, more outside directors are needed to monitor management and resolve the agency problem (Li, 1994). Thus, the composition of the board seems to influence how the board can perform its role.

Considering the field of Corporate Entrepreneurship within the firm, we believe that state-controlled firms are not involved in innovative activities, in terms of their political and social functions (Caves, 1990). However, as we have argued above, the aim of these firms is the economic equilibrium (Giannessi, 1979), just as in other firms with a different ownership structure. As innovation and entrepreneurship are the main sources of new wealth and firm value, we can argue that the involvement of these firms in Corporate Entrepreneurship activity should be high. Indeed, some researchers have focused on the relationship between firm R&D investment and state-ownership (Munari *et al.*, 2010). These authors have suggested that R&D activities within state-controlled firms should be oriented to the fulfillment of the general national goals of generating and disseminating the public good of knowledge. (Molas-Galart and Tang, 2006; Munari *et al*., 2002). More precisely, it is possible to identify specific interrelated

targets for R&D activities within this kind of firm (Munari and Sobrero, 2003). First of all, R&D investments should be directed toward specific business objectives, as in any other company, particularly when government intervention occurs in industries and areas of strategic relevance to the country. More generally R&D can be leveraged into a second objective: strengthening the nation's scientific and human infrastructure on both the supply and demand sides. At an even more general level, a third goal for R&D activities within state controlled firms might be to foster the production of the public goods of basic research to qualify and steer the national levels of investment in R&D (Munari *et al.*, 2010).

Thus, literature seems to suggest that entrepreneurial initiatives are important for State-controlled firm. Thus, a board of directors should ensure that the state and top management in this kind of firm act in the interest of the firm, pursuing Corporate Entrepreneurship activities that will improve firm performance.

Chapter 4. Empirical analysis

4.1. The method

The research[79] approach I used in this study is based on multiple case studies. I selected this research method because it allows replication logic and I treated the different cases as a series of experiments. I deliberately selected four different cases because they offered contrasting situations; I was not looking for a direct replication (Eilbert and Lafronza, 2005; Yin, 2009). Indeed, our research question was "*How do board attributes and major shareholder type influence the role of a board of directors in promoting and enhancing Corporate Entrepreneurship within a firm?"*. Moreover, Yin (2009) suggested that case study research should be used when the research question has the form of "how/why" and when the investigation concerns behavioral events. Both elements are presented in our research. Furthermore case study research enables us to describe and illustrate a particular phenomenon that originated from a presumed casual link that has yet to be explained.

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[79] Ferraris Franceschi wrote: "*La metodologia è da considerare come una delle variabili chiave della ricerca. Possiamo definirla una variabile strategica poichè è in grado di incidere direttamente sulla qualità del processo di indagine ponendolo al passo con i tempi del sapere scientifico e allineandolo con le circostanze spaziali e temporali con le quali si trova collegato*." Moroiver, she has added: "*Naturalmente la metodologia nella ricerca ha una valenza analitica ed euristica ed in questo aspetto può essere intesa come il complesso delle procedure logiche generalizzabili e delle componenti intuitive non codificabili che costellano un processo d'indagine*" Ferraris Franceschi R., *Problemi attuali dell'economia aziendale in prospettiva metodologica*, Giuffrè Editore, Milano, 1998, p. 3. She also wrote: "*Se per metodologia s'intende, secondo l'uso filosofico, esclusivamente l'indagine circa i metodi usati dalla scienza può darsi che ad un primo sguardo questa, che peraltro riflette la concezione ortodossa dell'indagine di cui ci occupiamo, appaia esaurire in breve il suo compito nei confronti dell'economia aziendale"*. And also:*"A fondamento dell'impostazione che vede la metodologia come teoria unitaria del metedo sta la convinzione che per giungere alla conoscenza scientifica, qualunque sia il settore reale a cui la stessa si rivolge, si percorrono le stesse vie." Sembra importante evidenziare che "considerando in assoluto quest'ultimo scopo può sembrare che il compito assegnato all'indagine metodologica si possa riassumere in un tentativo di imporre un ordine al mondo delle idee."* Ferraris Franceschi R., *Introduzione all'indagine metodologica e conoscitiva in economia aziendale*, Libreria scientifica Giordano Pellegrini, Pisa, 1974, p. 80.

Thus, the research design used was descriptive-exploratory, as it allows, the use of case studies to explain the different phenomena investigated. Indeed, this approach enables the acquisition of a great deal of information, without limitation. Van Maanen, discussing this research method, argued, “The label qualitative methods has no precise meaning in any of the social sciences. It is at best an umbrella term covering an array of interpretive techniques which seek to describe, decode, translate and otherwise” (Van Maanen; 1979: 520). Literature has also highlighted the fact that qualitative research allows the description of a phenomenon (Kidder, 1982), the testing of a theory (Pinfled; 1986) and the construction of a new one (Harris and Sutton, 1986)[80].

In the past, the qualitative research method has been criticized for poor scientific and methodological rigor. In particular some scholars have argued that case study research does not follow systematic procedures, provides little basis for scientific generalization, is too long and results in massive and unreadable documents. Despite this, recently, many authors (Eisenhardt, 1989; Stake, 1995; Jensen and Rodgers, 2001; Remenyi *et al.*, 2002) have attempted to highlight its principal merits and value. Eisenhardt and Graebner (1989: 25) argued, “Building theory from case studies is a research strategy that involves using one or more cases to

[80] See also: Yin R., The case study crisis: some answers, in *Administrative Science Quarterly*, 26, 1981; Turrini A., Lo studio di casi come metodologia di ricerca in economia aziendale, in *Azienda pubblica*, 1, 2, 2002; Ferraris Franceschi R., *L’indagine metodologica in economia aziendale*, Milano, Giuffrè Editore, 1978; Lincoln Y. S., Emerging criteria for quality in qualitative and interpretative research, *Qualitative inquiry*, n. 1, September 1995, pp. 275.289, Berg B. L., *Qualitative research methods for the social sciences*, 2001; Gillham B., *Case study research method*, Continuum, London, 2000; Price D. - Bannister F., The creation of knowledge through case study research, *Irish Journal of Management*, vol. 23, n.2, 2002, pp. 1-17; Shavelson R. - Townes L., *Scientific research in education*, National Academy Press, Washington DC, 2002; Dubois A. – Gadde L.E., Systematic combining: an adductive approach to case research, *Journal of Business Research*, vol. 55, n. 7, 2002, pp. 53-560; Riege A.M., Validity and reliability tests in case study research: a literature review with "hands-on" applications for each research phase, *Qualitative Market Research: An International Journal*, vol. 6, n. 2, 2003, pp. 75-86; Stoner G. - Holland J., “Using case studies in finance research,” in Humphrey C. - Lee B., *The real life guide to accounting research: A behind-the-scenes view of using qualitative research methods*, Elsevier, Oxford, 2004; Miles, M., Qualitative data as an attractive nuisance: The problem of analysis. *Administrative Science Quarterly*, Vol. 24, 1979; Miles, M., & Huberman, A. M., *Qualitative data analysis*, Beverly Hills, CA: Sage Publications, 1984.

create theoretical constructs, propositions and/or midrange theory from case-based, empirical evidence (Eisenhardt, 1989b). Case studies are rich, empirical descriptions of particular instances of a phenomenon that are typically based on a variety of data sources (Yin, 1994)". Moreover, the qualitative approach allows strong interaction between data collection and analysis.

One of the most popular frameworks for case study research was proposed by Yin (2009), who suggested that the first step in empirical research is to clarify the *research design*, the logical sequence that connects the empirical data to a study's initial research questions and ultimately to its conclusions. Thus, five components of research design are especially important for case studies. The first component, as mentioned above, is the *study question* and its form. The case study method is most likely to be appropriate for "how" and "why" questions. The second component is *study propositions*. Propositions help direct attention to something that should be examined within the scope of study and, in addition to reflecting an important theoretical issue, suggest where to look for relevant evidence. The third component is *unit of analysis*, which is related to the problem of defining what the case is and whether the case selected are right for the scope of the study. Moreover, the study question and propositions can help identify the relevant information to be collected about the unit of analysis. In case study research data can be qualitative (e.g., words) and quantitative (e.g., numbers). The fourth and fifth components are the logic linking the data with the propositions and the criteria for interpreting the findings, respectively. After data are collected, they must be elaborated and formalized. Some scholars have highlighted the need for tests to establish the quality of research based on case studies. These tests evaluate: (i) *construct validity*, identifying the correct operational measures for the concepts being studied; (ii) *internal validity*, establishing a causal relationship; (iii) *external validity*, defining the domain to which a study's findings can be generalized; and (iv) *reliability*,

demonstrating that the operations of a study can be repeated with identical results.

Indeed, our study began with a literature analysis, the discovery of a gap in the literature and the formalization of a research question. As our research question take the form of "how," we decided to use a qualitative research method that allows us to better explain the phenomenon. The next step was the selection of the units of analysis. We have chosen four firms. Each firm was selected considering our research scope. As we are interested in understanding the role of boards of directors in firm with different ownership structures and thus, different major shareholders we have identified firms that correspond to these characteristics. Thus, we have a firm in which the major shareholder is a family, one in which the major shareholder is a public entity, and two in which the major shareholder is another corporation. For this category we selected two firms because, in one the major shareholder is a corporation with a related business, and in the other, the major shareholder is a corporation with a non-related business. We decided to consider these conditions separately because in our literature review we supposed that the different aims that drive corporate venture decisions can influence the role of a board in Corporate Entrepreneurship in different ways.

For each firm, we collected data from the investor relations section of each firm's web site, from the web site of the Italian Stock Exchange and from each firm's Balance Sheet and Sustainability Report. From the Corporate Governance Report we selected members of the boards of directors for interviews in order to understand each board's involvement in Corporate Entrepreneurship. In particular, for each firm, we chose one inside director and one outside director. The directors were contacted by e-mail and asked to collaborate with academic research by participating in interviews.

The interview is a typical instrument of qualitative research because it allows more specific and comprehensive information to be obtained (Corbetta, 2003; Rubit, 1995). Interviews are a highly efficient way to

gather rich, empirical data, especially when the phenomenon of interest is highly episodic and infrequent (Eisenhardt, 2007). Moreover, it can be used to gather descriptions of the life-world of interviewees with respect to the interpretation of the meaning of the described phenomena (Kvale, 1983).

Interview were conducted using a semi-structured questionnaire. The questionnaire is organized in two parts (see Attachment 1). The first one investigates the level of Corporate Entrepreneurship within a firm. For this, we used Miller and Friesen's (1982) index. This Corporate Entrepreneurship measure has been widely used in past research because of its reliability and validity (e.g., Jennings and Lumpkin 1989; Zahra 1991). The measure follows a seven-point scale ranging from 1 = very untrue to 7 = very true. Scores on the items were averaged to produce an overall Corporate Entrepreneurship index; a high score on the index indicates high involvement in Corporate Entrepreneurship activities, while a low score indicates low involvement. The decision to use this index can be considered a variable for the control of the sample of the case studies selected, as the level of Corporate Entrepreneurship should be quite high in each case considered. Indeed, the aim of this study is to understand how a board of directors can support and promote entrepreneurial activities within a firm. If the level of Corporate Entrepreneurship in the case selected is low, it becomes difficult to understand board involvement in the entrepreneurial process. However, different types of board involvement can correspond to different high values for Corporate Entrepreneurship. Moreover, the literature has suggested that the integration of qualitative sources with other quantitative information can add value to research (Yin, 2009).

The second part of questionnaire involves the analysis of board involvement in strategic and entrepreneurial issues. We have individuated fourteen questions to help us understand, according to our literature review, the structure and process that characterizes each board of directors and their involvement with innovation activities. In particular, we focused

on the proclivity of each board, on the level of information that they use to evaluate top management activities, and on the opportunities for different directors, other key functional managers, and Business Units directors to meet. These questions are also scored using a seven-point scale ranging from 1 = very untrue to 7 = very true. The attribution of an overall index enables us to compare the firms in terms of their mechanisms of governance and board involvement in Corporate Entrepreneurship activities.

Once all the interviews were conducted, the data were integrated with other information collected from each firm's published documents (e.g. size of the board, number of insiders and outsiders, etc.). Finally we summarized all interview transcripts and other data into individual case reports.

We believe that the findings from these case studies cannot be generalized to the whole population, even if there are different interest considerations. Thus, while this study cannot be considered comprehensive, it can offer a preliminary understanding and the possibility for future studies to deepen and extend the research.

4.2. Case studies and data

We used four different data sources: (1) interviews with two directors of each firm, one insider and one outsider; (2) archival data, including company web sites, business publications, and other materials provided by the informants; (3) e-mail and phone calls; (4) attendance at conferences where a business leader presents the company and its business plan for future development.

The primary source was semi-structured interviews with individual respondents, which were conducted over a period of two months. The interviews were typically 50-80 minutes in length. We described the topic and purpose of the research to each informant prior to the interview. We also provided some basic information about the concept of Corporate Entrepreneurship and board involvement. Before each interview, we reviewed information about the company

profile, ownership structure and corporate governance from published sources and previous interviews.

Table 2. Type of information and relative sources

Type of Information	*Source*
Company profile	Web site, Company presentation in academic Conference
Ownership structure	Corporate Governance Report
Board composition	Web site, Corporate Governance section
Board characteristics	Web site, Corporate Governance section and interviews with directors
Board process	Interviews with directors
Board structure	Interviews with directors and Corporate Governance section
Corporate Entrepreneurship	Interviews with directors

We now introduce each object of study, selected, as mentioned above, based on their ownership structure.

The first firm (firm A) is one world leader in the tissue paper industry. With more than 1 billion euro in sales in 2010, this firm is the second largest company in Europe and the fourth-largest in the world in production capacity in the industry. This firm is characterized by the presence of two large family shareholders who are also the family founders. Both families are represented on the board of directors; the CEO is from one family and chairman is from the other. The other shareholders are on the board as non executives.

Based on the interviews, the level of Corporate Entrepreneurship in this firm is quite high (4.99). The index was calculated as an average of the evaluation that each interviewee provided in the first part of the questionnaire. We calculated the average of the two evaluation and calculated the mean. In this way we obtained a value with which to estimate the level of Corporate Entrepreneurship within the

firm. Both the interviewees indicated that the firm is characterized by a high level of continuous innovation and several investment projects to enter new markets.

The second firm (firm B) is a medical biotechnology company established in 1996 that focuses on the research, development, and clinical validation of innovative therapies to cure cancer. Since March 2008, the firm has been a public company listed on the Milan Stock Exchange Standard segment, class I of the MTA managed by *Borsa Italiana*. The company was created as a spin-off of an Italian Hospital, and has became an established product company with a primary focus on new anti-cancer therapies. The major shareholder of this firm is another corporation that operates a business unrelated to the biotech industry. The major shareholder does not have the control of the firm. The directors of this firm represent the first five shareholders because shareholders' agreement signed in 2007.

The level of Corporate Entrepreneurship within this firm, calculated as above, is quite high (4.14). If we consider a broad time frame, the value of the index would be higher. Indeed, the core business of the firm, the development of anti-cancer therapies, requires more time to introduce new product to the market. One of the directors interviewed said that the innovation is part of the firm's mission.

The third firm (firm C) is listed in the STAR segment of the Milan Stock Exchange and is an international leader in community and entertainment services for web and mobile devices, domain and hosting services, and advanced online advertising solutions. Company sales in 2010 were about 150 million euro. Moreover, in the last few months the firm has enacted a refocusing strategy, selling its consumer-oriented business, which includes the production and distribution of digital music, entertainment and online gaming via web and mobile devices. Thus, the core business of the company is now professional services for online presence and digital advertising. The major shareholder of this company is another corporation that operates in a related business. In this firm the major shareholder has also the control of the company. Most members of the board of directors belong to the network of the major shareholder, as indicated by the CV of each member.

The level of Corporate Entrepreneurship in this firm is the highest of all firms studied (5.71). One of the directors maintained that this high value is due to the recent refocusing process in which the firm was involved and its strong investment strategy in new geographic markets. The level and number of innovations introduced in terms of products and processes are similar to those of the firm's industry competitors.

The fourth firm (firm D) was recently listed in the Italian Stock Exchange (2007) and operates in the aviation industry. The major shareholder of this firm is a public entity. There is a shareholders' agreement between the most important public entities that own 55.31 percent of the firm's stocks. Two-thirds of board members are nominated by these shareholders, while the other third is nominated by minority shareholders.

The level of Corporate Entrepreneurship within this firm is high (4.28). The board members indicated that over the last four years, this company has been involved in a substantial development process big. It has introduced several new services and has invested in a number of important projects to reposition itself nationally and internationally.

The following table summarizes these firms' characteristics.

Table 3. Firm characteristics

Firm	*Location*	*Industry*	*Major Shareholder*	*Level of Corporate Entrepreneurship*
Firm A	Lucca	Tissue	Family	4.99
Firm B	Milano	Biotech	Another corporation (unrelated business)	4.14
Firm C	Firenze	IT	Another corporation (related business)	5.71
Firm D	Pisa	Aviation	Government	4.28

From the interviews and the analysis of the corporate reports and documents, we obtained other relevant information concerning the corporate governance mechanisms adopted by these firms.

To analyze the governance mechanisms adopted by these firms we follow the framework proposed in the second chapter of this work, focusing on the four board attributes. The first attribute that we highlighted is board composition. As discussed in the chapter 2.2.1, the attribute of composition mostly concerns the size of the board and the mix of director types.

In terms of board composition, interviews and data suggest that firms in which the major shareholder is a firm have a larger boards than the firms in which the major shareholder is a family or a public entity. However, for all case studies considered, membership in the network of knowledge of the major shareholders is one of the dominant criteria for the selection of individual board members. Indeed, analysis of the CVs of the directors highlights how the majority of a board's members have a professional or educational background close to the large shareholders of the firm. For example, considering the professional experience of the directors of firm C, more than 50 percent of directors had professional experience in either a corporation that owns an important block of firm stock or in one of its subsidiaries[81]. Considering the mix of types of directors, the data shows that the number of outsiders is high in firms in which the major shareholder is another corporation or a public entity. These firms are also listed in the Italian Stock Exchange, although there are not legal provisions that require the presence of such a large number of outside directors for listed companies.

Table 4. Board composition

Firm	Number of board members	Number of insiders	Number of outsiders
Firm A	6	3	3
Firm B	13	2	11
Firm C	14	2	12
Firm D	9	1	8

[81] Evidently, the professional experience is referred to a period prior to the three years set by the law.

The second attribute discussed in the chapter two (2.2.2) is board characteristics. According to literature (Zahra and Pearce, 1989), board characteristics consists of two components: demographic characteristics of the board and its personality[82]. We argued that both are important in terms of board involvement on Corporate Entrepreneurship.

In terms of board characteristics, interviews and data suggest that heterogeneity in a boardroom is typical when the major shareholder is another corporation. Indeed, in this type of firm, directors tend to have a variety of types of professional experience and educational backgrounds. The personality of the board appears stronger in the family firm. One interviewee from the family firm reported that more than once, the board of directors have changed or refused an entrepreneurial opportunity proposed by the CEO, because it was considered too risky or unfitting for the historical period of the firm. In the other firms, the personality of the board seems weaker. Indeed, the interviewees from the other firms stated that often, their boards were involved in entrepreneurial opportunities proposed by the management, but and did not refuse any proposal.

The third attribute introduced in chapter two (2.2.3) is board structure. Board structure concerns a board's organization (Zahra and Pearce, 1989) and involves the rules that exist to make the board more efficiently (Huse, 1995; Gabrielsson and Winlund, 2000). It covers the number and types of committees as well as committee membership (Zahra and Pearce, 1989; Demb and Neubauer 1992; Huse 1995).

In terms of board structure, in addition to the committees required by law, firms A and B also have a Scientific Committee. However, firm A's is not a true Scientific Committee, as it is composed only of firm executives and managers. However, the aim of this committee is to challenge and create agreement for new projects the firm would implement. The Scientific Committee of firm B is

[82] We remember that the heterogeneity or homogeneity of board's cognitive frames and its directors' traits we believe affect how they work individually and together. In terms of personality, we refers to those norms – the board's social systems or "board culture" as Nadler (2004) termed it – that come from the directors' shared beliefs about active preparation and participation, as well as from their shared values concerning the directors' respect for one another and personal responsibility and accountability for the company's prosperity. These norms can make the board more strong and indipendent.

composed of the CEO and other skilled members who are able to provide specific knowledge on the firm's innovative projects. The aim of this committee is to evaluate and suggest development opportunities for new products and services.

The last attribut discussed in chapter two (2.2.4) is board process. The mechanisms that can help the board work more efficiently include the frequency and length of meetings, CEO-board interface, the level of consensus among directors on issues at hand, the formality of board proceedings, and the extent to which the board is involved in self-evaluation (Mueller, 1979; Vance, 1983). In the chapter 2.2.4, we concentrated our attention on formal board routines, the existence of a formal evaluation of boardroom performance and the frequency of board meetings (Demb and Neubauer, 1992; Huse, 1995).

In terms of board process, the number of board meetings is higher in the firm in which the large shareholder is a family. Moreover, the possibility of having meetings between outsiders and key functional company managers is more frequent in this firm, although there are not formalized meeting agendas. The other firms have a different perpsective concerning insiders and outsiders. Indeed, the outsiders interviewed underlined the need for more frequent and formalized meetings, while insiders belivied that this practice could damage the effectiveness of the board of directors, which should have trust in the CEO and other executives.

Table 5. Board process

Firm	Number of meetings	Timeliness of information	Completeness of information
Firm A	30[83]	5	5
Firm B	9	6	6
Firm C	6	6	5,5
Firm D	5	5	5

[83] Concerning the high number of meeting in firm A we must highlight that the internal policy of the firm sets that the board of directors have to deliberate on every corporate decision. The outsiders interviewed suggest that the number of meeting in which board evaluate and discuss the entrepreneurial development of the firm are no more than six.

4.3. Discussion

How can a board of directors support and enhance Corporate Entrepreneurship within a firm? Prior research has shown that a board of directors can ensure the existence of safeguards against managerial opportunism, evaluate manager activity, and exploit entrepreneurial opportunities. At the same time, a board of directors can serve as a provider of resources that are essential for a firm to exploit new opportunities (Zahra and Pearce, 1989; Lynall *et al.*, 2003; Zahra *et al.*, 2009). According to the literature (Filatotchev and Wright, 2005) we argued that a board of directors has two main roles: protecting and creating new wealth for shareholders. As Corporate Entrepreneurship can be considered a source of wealth because it involves high risk/high return activities, a board of directors should monitor executives to ensure the exploration and exploitation of entrepreneurial opportunities and should suggest new entrepreneurial innovation activities (March, 1991). We also argued that board attributes can influence the role of a board in Corporate Entrepreneurship, making monitoring and entrepreneurial roles easier (Uhlaner, *et al.*, 2007). The case studies considered support this argument, although with certain differences that we have traced back to major shareholder type. Indeed, on one hand, prior scholars have argued that ownership structure can influence the levels of R&D investment and innovation in firms (Lee and O'Neill, 2003; Tribo *et al.*, 2007; Munari *et al.*, 2010). On the other hand, other scholars have found that one of the most important antecedents to board role is ownership structure and concentration (Zahra and Pearce, 1989; Uhlaner, *et al.*, 2007).

As described above, the role of a board in Corporate Entrepreneurship can differ depending on whether the major shareholder is a family, a corporation or a public entity. In particular analysis of the case studies suggests that board involvement in Corporate Entrepreneurship depends on the network of the major shareholder and his interest in the business of the firm. The data and interviews collected for firm A, in which the major shareholder is a family, seem to confirm the theory that family firms last longer than non family firms (James, 1999). Thus, firm A seems to have great incentive to monitor managers and ensure that they are working to protect and create new wealth (Filatotchev *et al.*, 2005), in large part

because the CEO is a member of the founding family. In such a firm, the CEO is the main leader of business innovation. Although board composition reflects the network of the major shareholder, some boards of directors has altered or refused innovation opportunities that the founder/CEO has proposed. One of the directors interviewed said:

"*When board of directors has to discuss an ambitious project, two different board personalities emerge: one more entrepreneurial and one more conservative. Sometimes undertaking a bold project is approved, but sometimes it is refused because it is considered too risky for the firm.*"

Moreover, concerning board structure and process, the analysis seems confirm the idea that family members view their firm's health as an extension of their own interests (Gomez-Mejia *et al.*, 2003). For this reason the board of directors has frequent opportunities to met with key functional managers of the firm, with Business Units directors and with the members of Board of yhe Statutory Auditors[84]. In this way, a firm can increase board involvement in the pursuit of Corporate Entrepreneurship activities and create commitment among firm employees, managers and the CEO on new entrepreneurial projects.

Firm B is representative of a situation in which the major shareholder is another corporation that operates in an unrelated business. Literature has maintained that in this kind of firm, the board should have broad influence over top management to protect and create shareholders' wealth. This is because major shareholder that lacks knowledge and expertise must rely on the board of directors to evaluate decisions of the top management team. Prior research has shown that the size of the board, the representation of outside directors, outside directors' stock ownership, and the separation of the CEO and the chair position affect a

[84] "The Board of statutory auditors has a central role in the supervisory system of an issuer. The Committee believes that the supervisory duties of the Board of statutory auditors have to be carried out in a preventive manner and not merely *ex post*, essentially verifying the procedures developed and reporting findings to the directors, in order for them to adopt the necessary remedies, if any. The subsequent coordination with the management bodies, including the delegated ones, shall be deemed consistent with supervisory role on compliance (with the law, the by-laws, the internal procedures) typically entrusted to the Board of statutory auditors. Such a role distinguishes it sharply from the Board of Directors and control and risk committee, that basically assess, also from a substantive viewpoint, the adequacy of the organization and the performance of the management process." *The Corporate Governance Code*, pag. 37.

board's ability to monitor and evaluate management and encourage Corporate Entrepreneurship within the firm (Zahra 1996; Zahra *et al.*, 2000). The data and interviewes for Firm B suggest that the presence of outside directors in the boardroom can help the board's monitoring function and ensure the protection of shareholder wealth. However, this may not be sufficient. Outsiders should have the right mix of competencies and skills to challenge and evaluate management activities. Indeed both members interviewed said that to ensure shareholder wealth and propose other entrepreneurial opportunities, the board of directors should be heterogenous. The outside directors said,

"*We need a board that is more competent. The board is very active with the monitoring function. However, the board's service role is still lacking"*

To resolve this problem, the firm established a Scientific Committee to evaluate and suggest development opportunities for new products and services. However, only recently has the board of directors began meeting with members of this Committee, to involve directors in generation of new ideas and projects.

Moreover, the interviewees said that a board with a strong personality can help directors perform their roles. Indeed, the literature has suggested that a strong, independent and collaborative board is important to promote and enhance Corporate Entrepreneurship (Zahra and Pearce, 1989). Strong directors can make a board stronger and more collaborative.

In firm C, the major shareholder is another corporation that operates in a related business. Literature has shown that the decision of an established firm to invest in another firm with a related business can allow the acquiring firm to develop knowledge, skills and competencies that can improve its performance and growth (Thomsen and Pedersen, 2000). However, the firm being acquired may regard the corporate investor with suspicion, as the aim of the major shareholder may be to appropriate the innovative ideas that firm developed internally (Dushnitsky and Shaver, 2009). Thus, in this firm, directors play a crucial role in coordinating and balancing the interests of the major shareholder and the top management team. Analysis of this case study suggests that the corporate investor tends to have a large number of directors in the boardroom. Moreover, although there is not a formalized focus group or task force that relates directly to the

board, the firm usually organizes summits before each meeting to discuss issues with strategic relevance. At these summits, directors can have discussion with key functional managers and directors of Business Units, given the approval of the CEO or another executive. Through these opportunities, directors can evaluate top management's pursuit of Corporate Entrepreneurship activities and provide counsel on development opportunities. On this topic, one of the directors interviewed said:

"F*or outsider directors*, *it is important to have meetings with the top management team. This can help us evaluate the validity of the project we have to discuss and approve during the board meeting."*

In Firm D the major shareholder is a public entity. Literature has suggested that, although the state is a particular category of shareholder because it can use a firm to pursue political objectives (Shleifer and Vishny, 1994), a high level of Corporate Entrepreneurship in this type of firm is important. Munari *et al.* (2010) highlighted three different situations in which this is particular important: (i) when the firm operates in a business of strategic relevance for the country and innovation can ensure superior performance; (ii) when entrepreneurial opportunities can be used by the firm to strengthen the nation's scientific and human infrastructure; (iii) when innovation can encourage and support the production of public goods. Thus, in this kind of firm, the board of directors should ensure that shareholders and top management act in the interest of the community. The analysis of this case study supports this idea. In particular, the board of directors supports and enhances the innovation process and strategic renewal that the firm has been undergoing. Although the board's composition and characteristics reflect the network of the major shareholder, the board's structure and process highlight the strong commitment of the board of directors and top management team to ensuring that entrepreneurial opportunities are exploited. In particular, given the strategic importance of this business for the community, Corporate Entrepreneurship activities can help the firm in acquire national and international assets and thus improve firm survival and growth (Zahra *et al.*, 2009).

Our findings suggest that a board of directors can pursue and enhance Corporate Entrepreneurship within a firm by monitoring and encouraging the top management team in the pursuit of high risk/high returns project. The level of information and the ability to meet with different members of the organization are important elements that can help a board of directors perform its role. Moreover, case studies suggest that the role of a board in Corporate Entrepreneurship can differ in terms of attributes and means of performing its role depending on the major shareholders of the firm. However, our case study research provides only a preliminary explanation of this latter perspective. We are aware that more specific and broad empirical investigation is necessary to understand how a major shareholder can impact a board's role in Corporate Entrepreneurship. Furthermore, it could be useful to replicate the study, considering firms that are different in terms of major shareholders but operate in the same industry to eliminate any causal link from different industries. However, we selected firms operating in different industries to increase the reliability of our findings.

Conclusion

Corporate Entrepreneurship is important for company survival, profitability and development. It refers to entrepreneurial behavior and the pursuit of entrepreneurial opportunities by existing firms. The main traits generally associated with entrepreneurship in start-up a firm, growth, profitability, and innovation, have become desirable for large corporations as well. Given these important contributions to firm growth and performance, One of the most important factors to support and enhance Corporate Entrepreneurship within firms is the involvement of the board of directors. We can better understand the importance of a board’s contribution to the improvement of entrepreneurship within a firm if we consider the main characteristics of Corporate Entrepreneurship activities, which are characterized by high risk and uncertain and which require a strong, supportive organizational structure. However, careerism and short-term base reward systems may discourage top management's pursuit of Corporate Entrepreneurship. The high probability of failure of some entrepreneurial activities can depress a company’s short term performance and damage executives’ reputation, increasing their risk of losing their employment. As a result, top management may have strong risk aversion and may be induced to avoid entrepreneurial opportunities for development and growth. The consequence is decrease in firm performance and thus in shareholder wealth. Agency theory has suggested that corporate ownership and governance systems can affect managers’ willingness to take risks. Thus, a board of directors, the apex of corporate governance, can encourage managers to support and pursue Corporate Entrepreneurship within the firm. In particular, a board can ensure the existence of safeguards against managerial opportunism and evaluate managers' exploitation of entrepreneurial opportunities. A strong and vigilant board is able to monitor executives’ strategic decisions and align the interests of top management and shareholders. The board can also serve as a provider of resources that are essential for the firm to exploit new opportunities. Boards are a potential source of cognitive resources that may be valuable in strategic decision processes. Outside

directors, because of their backgrounds in other firms and industries, can bring new knowledge, fresh perspectives, and different problem-solving styles to decision-making tasks. Thus, a board can help top management gain access to external resources, combine these resources with those within the firm, and use these new combinations to explore and exploit new entrepreneurial opportunities. The boardroom is a potential source of creative thinking about new opportunities for growth. We propose to encapsulate all these functions in two main board roles the monitoring and the entrepreneurial roles, to indicate how a board of directors should support and enhance Corporate Entrepreneurship within a firm and protect and create new shareholders' wealth. A should protect shareholders' wealth by ensuring manager accountability and minimizing agency cost, and create new wealth by providing new knowledge and resources, giving advice to executives to promote innovative activities, aiding in strategy formulation, and focusing on Corporate Entrepreneurship. Thus, a board of directors should achieve a balance between wealth protection and wealth creation in order to assure, encourage and promote Corporate Entrepreneurship within the firm. This is the first theoretical contribution of our dissertation.

However not all boards are structured in the same manner, and different board attributes can influence the way a board performs its monitoring and entrepreneurial roles. Board attributes include composition, characteristics, structure and process. Board composition includes the size of the board and the mix of inside and outside directors; board characteristics include the age, educational background, value and experience of directors. Board structure includes the number and types of committees, committee membership, the flow of information among these committees and board leadership. Process includes the mode of operation that a board takes in making decisions, the frequency and length of meetings, the formality of board routines and the extent to which the board evaluats itself. The capability of a board to perform its roles depends on its characteristics, structure, composition, and process. The investigation of how these different attributes can influence the role of a board in Corporate Entrepreneurship is the second theoretical contribution of this work.

Executives' support of Corporate Entrepreneurship may also be influenced by the presence of a significant shareholder who appreciates the value of long term investment and who monitors and encourages executives to emphasize Corporate Entrepreneurship activities. However the means by which a major shareholder can do this is the board of directors. Thus, different shareholder types can have different effects on the monitoring and entrepreneurial functions of boards, both directly and indirectly, and may effect the board's composition or characteristics. When the major shareholder is a family, another corporation or the government, the board's attributes can change, and as can its influence on Corporate Entrepreneurship. The investigation of the relationship between major shareholders, boards of directors and Corporate Entrepreneurship is the third theoretical contribution of our thesis.

The case study analysis seems to confirm our propositions. The four firms investigated highlight how the level of Corporate Entrepreneurship within a firm depends on that firm's corporate governance mechanism and type of major shareholder. The board of directors plays an important role in pursuing and enhancing Corporate Entrepreneurship within the firm and monitoring and encouraging the top management team in its pursuit of high risk/high return projects. The level of information and the ability to meet with different members of the organization are important elements that can help a board of directors in performing these roles. Moreover, case studies suggest that the role of a board in Corporate Entrepreneurship can differ, in terms of its attributes and the way it performs its role according to the type of major shareholder of the firm. For instance, in terms of board composition, the firms with an ownership structure in which the major shareholder is a firm tend to have larger boards than firms in which the major shareholder is a family or a public entity. However, for all case studies considered, membership in the network of knowledge of the major shareholder is one of the dominant criteria for the selection of individual board members. Thus, social network theory seems to be the most important perspective from which to describe the influence of a major shareholder on board attributes. However, our findings suggest that agency theory and, in particular, resource

based theory, are also key in indicating how a board should be composed, structured and characterized to best perform its role.

Future research may clarify the relationships between social network theory, agency theory and resource based theory to investigate how major shareholder type can influence board attributes. Moreover, future research can repeat this study considering firms in the same industry, to eliminate possible industry effects. Finally, future studies can investigate this research interest using a cross-country approach, as there are many differences shareholder types, board attributes and Corporate Entrepreneurship roles from country to country.

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Appendix A

Firm	
Interviewee	
Role	
Date	

Corporate entrepreneurship

(1) Our company has introduced many new products or services over the past three years.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

(2) Our company has made many dramatic changes in the mix of its products and services over the past three years.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

(3) Our company has emphasized making major innovations in its products and services over the past three years.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

(4) Over the past three years, this company has shown a strong proclivity for high-risk projects (with chances of very high return).

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(5) This company has emphasized taking bold, wide-ranging actions in positioning itself and its products (services) over the past three years.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(6) This company has shown a strong commitment to research and development (R&D), technological leadership, and innovation.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(7) This company has followed strategies that allow it to exploit opportunities in its external environment.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(8) Who were the leaders of the business ideas?

Comments:____

____

____

(9) How the business ideas have been implemented?

Comments:____

____

____

(10) The business idea leader has been involved in the exploitation of entrepreneurial idea? Which with role?

Comments:____

____

____

(11) The leader of business idea has been rewarded? How?

Comments:____

____

____

Board involvement

(1) The board has refused o has changed innovation opportunities proposed by top management.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(2) The board has accepted and enforced innovative ideas that have found their origin in the mind or in the work of the firm's employees.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(3) There are focus groups or task forces composed of employees and managers from different organizational functions, that relate directly to the board.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(4) In addition to board meeting, there are different opportunities for outsider directors to have meetings.

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(5) In which occasion outside directors have the possibility to have a meeting with other key function managers (e.g. HR manager, legal expert, CFO, etc.)?

- o Board meeting;
- o Committees meeting;
- o Other meeting: ___________

Comments:____

____

____

(6) Outside directors have meetings with Chairman or CEO YES NO

Comments:____

____

____

(7) Outside directors have the right flow of information before board meeting, in order to perform their role, in terms of:

- ➢ Timeliness

Very untrue 1 2 3 4 5 6 7 Very true

- ➢ Completeness

Very untrue 1 2 3 4 5 6 7 Very true

Comments:____

____

____

(8) Describe the position of executive directors in the firm:

Name Function

Name Function

Name Function

(9) Business Unites Directors are members of the board of directors YES NO

If they are not members, are they invited to attend to board meeting? YES NO

Comments:____

____

____

(10) Which kind of board evaluation system does the board adopt?

Comments:____

____

____

(11) Is there a Scientific or Ethics Committee? YES NO

If yes, can the committee relate to the board and suggest new initiatives or provide counsels about issue under discussion? YES NO

Comments:____

____

____

(12) Are there some mechanisms of incentives for employees, managers or directors that suggest new entrepreneurial opportunities? YES NO

Comments:____

____

____

(13) Are shareholders with much more than 10% of capital represented within the board of directors? YES NO

(14) Are minor shareholders represented within the board? YES NO

Comments (e.g. number of directors that represent minor shareholders and who have nominated these directors)**:**

____

____

____