Public Sector Employee Perceptions of Risks and Rewards in Terms of Entrepreneurial Orientation

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Abstract: The paper aims to examine the influence of dimensions of EO on the performance of public sector organisations. A survey method was used to collect data from 231 managers in selected public sector organisations. Results indicate a positive and significant relationship between variables. The outcomes of the study point out that the findings might have important practical implications that can assist public sector organisations in becoming more entrepreneurially orientated, and can thus lead to higher performance. The findings of this study can therefore be used to develop policies and strategies that can be used within the public sector as a whole to improve performance.

Keywords: Entrepreneurial Orientation, Innovativeness, Performance, Rewards, Risk

1. Introduction

Entrepreneurial orientation (EO) is receiving increased empirical attention among entrepreneurship scholars, it is seen as an effective strategic process in pursuing market opportunities and enhancing organisational performance. However, most research to date has focused on defining and refining the construct. (Lumpkin & Dess, 1996; Brown, Davidson & Wiklund, 2001; Tang, Tang, Marino, Zhang & Li, 2008; Saeed, Yousefzai & Engelen, 2014). A large stream of research has examined EO theoretically and empirically. Considerable effort was invested to comprehend the area of EO for the past 30 years since it has critical importance to many organisations which aspires to grow continuously (Baskaran, Mahadi, Rasid & Zamil, 2018). Most of the research on the link between EO and organisational performance focus on the mature market economy and the nature of this relationship in the context of a transitional economy is still relatively under researched (Bruton, Ahlstrom, 2003; Chow, 2006). Therefore, in-depth investigation in this area is needed to fill in the research gap in a more comprehensive understanding of the relationship between EO and organisational performance.

Schindehutte, Morris and Kuratko (2000) as indicated by Nikolov and Urban (2013) noted that a spirit of entrepreneurship needs to permeate organisations. It is essential to ensure continuous flow of innovation and entrepreneurship becomes a specialised function in organisations. Entrepreneurship has been characterised by a number of researchers as a combination of innovativeness, risk taking ability and pro-activeness (Sharma & Dave, 2011). In today’s economic environment, achieving heightened performance and efficiency is more important than ever to improve competitiveness, deliver better service and reduce costs (Sanderson, Harshak & Blain, 2010). Appointing people or teams that drive and stimulate entrepreneurial activities, like creating new ventures, culminate in active change where organisational support and self-efficacy play crucial roles for employees who are willing to take charge in organisations (Onyishi & Ogbode, 2012).

Leaders in the public sector look to inject entrepreneurial spirit and innovation into the traditional structures and processes of government. This means that public servants will need to think and act like entrepreneurs – building new relationships, leveraging resources and working across sector lines. Therefore within organisations this means stimulating innovation through a problem solving spirit and a natural bent for working more closely with citizens. Across systems, it means building coalitions and cross-sector collaborations that can improve outcomes control cost and sustain access in ways that span the traditional silos of government (Centre for Public Impact, 2016). Many previous studies have supported the relationship between EO and firm performance. The studies further indicate that EO is a combination of risk taking, pro-activeness and innovativeness and that it is positively related to performance (Wiklund, 1999; Lee & Peterson, 2000; Kroeger, 2007). The influence of EO on performance of firms in the private sector has been extensively
researched. However, the effort to extend this EO-performance relationship to the public sector is still low (Koe, 2013:25).

In general the public sector is perceived as bureaucratic, conservative, monopolist, politically influenced, non-performing, non-entrepreneurial and very lacking in innovation (Zampetakis & Moustakis, 2007; Mabala, 2012; Koe, 2013). Therefore this study seeks to dispel this myth and to prove that public sector organisations can be as entrepreneurial as their private sector counterparts.

The present study makes the following contributions; first, the study extends knowledge of EO in general and risk taking in particular with regard to its applicability in one distinct organisational context, which is the public sector. Second, the study sheds light on the influence that risk, rewards have on entrepreneurial orientation and the performance of an organisation, thereby advancing knowledge of EO in the public sector.

2. Literature Review

2.1 Entrepreneurial Orientation (EO)

De Jong, Parker, Wennekers and Wu (2011) recognised that entrepreneurial behaviour by employees within organisations matters for economic progress. Recent findings based on survey data from Global Entrepreneurship Monitor suggest that inter-company entrepreneurship is even more important than previously thought. They also recognised that entrepreneurial activities in organisations are barely studied and that more research is needed to understand the conditions that foster such activities.

The relationship between EO and firm performance is well established in both conceptual and empirical literature on EO. Since in the 1980's scholars argue for a positive and significant relationship between EO and firm performance. Majority of the empirical studies in this area have validated this relationship (Covin, Green & Slevin, 2006; Wales et al., 2013a). EO is an independence of an action which paves way towards new ideas exploration while constantly pursuing new markets to attain market leadership status while portraying to commit itself into entrepreneurial behaviour. Literature considers the concept of EO as the perspective of policy development in order to improve efficiency. This concept refers to three dimensions that can be used to study, analyse and test performance of organisations. These dimensions are innovativeness, risk taking and pro-activeness (Belgacem, 2015; Janney & Dess, 2006).

EO reflects the organisational processes, methods and styles that firms use to act entrepreneurially. Various researchers have found positive associations among risk taking and other aspects of entrepreneurial behaviour. For instance, in organisations that are characterised by innovation and pro-activeness, risk taking appears to be substantial (Lumpkin & Dess, 1996; Rauch, Wiklund, Freese & Lumpkin, 2004). Different studies have suggested that the dimensions of EO should be viewed as separate but related constructs, rather than as one unifying characteristic. That is, organisations can vary in degree of innovativeness, pro-activeness and risk taking so that they are not equally entrepreneurial across all dimensions (Lumpkin & Dess, 1996; Lyon, Lumpkin & Dess, 2000; Naldi, Nordqvist, Sjoberg & Wiklund, 2007). EO is regarded as inevitable for firms that want to prosper in competitive business environments. Therefore the positive impact of EO on firm performance and growth has been supported by several studies (Lumpkin & Dess, 1996; Wiklund, 1998; Zahra, Jennings & Kuratko, 1999).

Various scholars have considered EO as a major contributor to firm’s performance and have found that dimensions of EO, which is innovativeness, pro-activeness and risk taking have significant influence on performance of firms (Wiklund & Shepherd, 2005; Madsen, 2007; Soininen, Puumalainen, Sjogren & Syrja, 2012). However, there is a limited study on the influence of EO towards the performance of public sector organisations.

2.2 Participation in Entrepreneurial Orientation Initiatives: Risk and Rewards

Risk taking is the degree of risky behaviour in the strategic entrepreneurial process and is considered a fundamental element of entrepreneurship (Cai, Liu, Deng & Cao, 2014). In the study by Chiva and Alegre (2009), risk taking is characterised as the level of tolerating with uncertainty, ambiguity and errors. Naldi et al. (2007:34) argue that the relationship between risk taking and performance is better understood by taking into account the organisational context and especially the relationship between and the nature of ownership, governance and management.

In the study by Sharma and Dave (2011:43), risk taking ability is found to play the most important part
in the performance of an organization. Fostering EO demands a more enlightened approach to management including decentralisation of authority, participation in decision making, cooperation, avoidance of bureaucracy and encouragement of risk taking and creativity (Antoncic & Hisrich, 2001; Loof & Heshmati, 2002; Hayton, 2005). In the study by Rauch, Wiklund, Freese and Lumpkin (2004) as quoted by Naldi et al. (2007), it was found that the risk taking dimension is positively related to performance, even if significantly smaller than other aspects of EO and that risk taking is not an isolated phenomenon. Processes and practices related to risk taking are correlated with innovative and proactive behaviours.

Risk taking may be higher in some type of firms than in others, supporting the argument that organisational and governance contexts need to be taken into account in order to gain a deeper understanding of the relationship between risk taking and entrepreneurship in established firms. The relationship between risk taking, entrepreneurship and performance may depend on organisational context (Naldi et al., 2007). Buurman, Delfgaauw, Dur and Van den Bosch (2012) indicate that public sector employees are more risk averse than employees in the private sector. Preferences and work motivations of public sector employees differ from those of private sector employees. Some of these differences stem from sector differences in the nature of the job. In the public sector many jobs involve service delivery, helping people in need or contributing to society at large. To achieve an entrepreneurial climate, it is important for organisations to continuously self-renew, hence focus on capturing opportunities and be innovative. Creation of Strategic entrepreneurial vision requires that the department develops norms and behaviours that foster entrepreneurial processes in the organisation (Ireland et al., 2009). Therefore, an organisation is required to inculcate an organisational culture driven by EO which enables continual survival (Baskaran et al., 2018).

Hornsby, Kuratko & Morgan (1999); Hayton, (2005) indicated that HR practices are important in fostering EO in an organisation. There are five success factors that linking HR practices to EO. These include the appropriate use of rewards, the provision of management support for innovation, the availability of resources for innovation, an organisational structure conducive to learning and cooperation and individual risk taking. Top level managers are responsible for establishing pro-entrepreneurship organisational architectures where the workplace exhibits structural, cultural, resource and system attributes that encourage entrepreneurial behaviour, both individually and collectively. (Martins & Martins, 2002; Morris, Kuratko & Covin, 2008).

One of the major requirements for developing EO is through the appropriate use of rewards. Researchers regard individual performance assessment and compensation as critical for entrepreneurial participation. Encouraging risk-taking and innovative behaviours must be consistent with individualised performance assessment and compensation. If employees cannot see a clear link between performance and reward, they may remain unwilling to participate in entrepreneurial initiatives (Kuratko, Morris & Covin, 2011; Grandori et al., 2011).

A number of studies have indicated the need for a proper reward system in order to encourage risk taking and promote EO amongst individuals. It appears that some form of reward must be offered to encourage acceptance of greater than normal risk by employees. These studies point out that EO can be influenced by perceived management support; availability of resources and the presence of appropriate reward systems (Chandler, Keller & Lyon, 2000; Hayton, 2005; Grandori et al., 2011). Rewards and reinforcement develop the motivation of individuals to engage in innovative, proactive and moderate risk taking behaviour. Scholars stress that an effective reward system that spurs entrepreneurial activity must consider goals, feedback, emphasis on individual responsibility and performance based incentives. The use of appropriate rewards can also enhance employee’s willingness to assume the risk associated with entrepreneurial activity (Goosen, 2002; Hough & Scheepers, 2008).

Bhardwaj, Sushil, & Mumaya (2011) highlighted that a reward system in the organisation influences the behaviour of employees to assume specific roles and responsibilities that encourages entrepreneurial intentions. Generally, creation of entrepreneurial behaviour among employees will not materialise unless the employees perceive that they will be rewarded accordingly. Recognition for their significant contribution or exceptional entrepreneurial performance is what an employee expects in pursuit of entrepreneurial activation. However, Moggadham (2017) claims that rewards may not necessarily influence a decision-making process to attempt new endeavours.
2.3 Participation in Entrepreneurial Orientation Initiatives: Innovativeness

Innovation is defined as the production, adoption and implementation of novel use and useful ideas; including products or processes from outside an organisation. Innovative work behaviour is then seen as an individual’s behaviour aiming to achieve the initiation and intentional introduction of new and useful ideas, products, processes or procedures (de Jong, Parker, Wennekers & Wu, 2011). Entrepreneurship and innovation have become imperative for the sustained growth and development of organizations across industries and political geographies. Therefore innovation is one of the most important factors that enable an organisation to stay competitive (Bueno & Ordonez, 2004; Valliere & Peterson, 2009). Baregheh, Rowley and Sambrook, (2009) indicate that as marketplaces become more dynamic, interest in innovation, its processes and management has escalated. Organizations need to innovate in response to changing customer demands and lifestyles and in order to capitalise on opportunities offered by technology and changing marketplaces, structures and dynamics. Organizational innovation can be performed in relation to products, services, operations, processes, and people. Entrepreneurship literature provides adequate evidence that innovation is the widely examined dimension of EO (Baskaran et al., 2018).

In the works of Kuratko and Hodgets, 2004 as quoted by Hough and Scheepers, (2008) innovative organisations are characterised by providing rewards based on performance, offering challenges, increasing responsibilities and promoting the ideas of innovative people throughout the organisation. Studies conducted by Hayton (2005) and Grandori et al. (2011) offer evidence for the need to reinforce risk taking and innovative contributions with extrinsic rewards, therefore the outcome indicated that compensation is the most important aspect of innovation.

Kearney and Meynhardt (2016) have indicated that opportunities for innovation in the public sector arise from conditions specific to the public sector, and innovation is much less focused on commercial considerations than in the private sector. Therefore it is important to recognise these differences to develop entrepreneurship within the public sector and obtain the benefits that are generated by an effective entrepreneurial culture. In order to engender entrepreneurship in the public sector, there is a need to create an environment conducive to exploration, generating trust and motivating staff to be entrepreneurial and innovative (Kearney, Hisrich & Roche, 2007).

In order for public sector organisations to survive and prosper in the rapidly changing environment, greater innovation and creativity is required from managers and employees alike. EO is gaining momentum in the public sector. It is a strategic approach to the management of public resources and involves a quest for efficiency and effectiveness in public service delivery. Therefore, it is imperative to activate EO among employees, which also creates entrepreneurial competencies (Turner & Pennington, 2015).

3. Research Objectives

Research in the international business area has shown that various factors are important in understanding the EO-performance relationship fully. Therefore, a deeper examination of the factors that may drive the EO-performance relationship in the public sector is necessary. By combining insights from literature on EO in the public sector and performance the purpose of this article is two-fold. The first is the perception of managers and employees about reward and risk attributes that encourage EO behaviour. The second is to examine the relationship between risk taking and performance in the public sector. The study makes two important contributions. First the study extends knowledge of EO in general and risk taking in particular with its applicability in the public sector. Secondly, more light is shed on the influence that risk taking and rewards dimension have on EO and performance in the public sector.

4. Research Methods

4.1 Population

No sampling was done as the population was a reasonable number (231) of all employees between level 9 (junior/supervisory) and level 16 (executive management). The target population was all the managers in selected public organisations under the leadership of the Minister of Public Service and Administration (MPSA). The selected organisations were the Centre for Public Service Innovation (CPSI),
4.2 Research Instrument and Data Collection

As this study was quantitative in nature, questionnaire survey was regarded as appropriate. The instrument used in this study was a self-administered questionnaire known as the Corporate Entrepreneurship Assessment Instrument (CEAI). This instrument had been used in several researches before and it was adapted for this study to ensure content validity. As the instrument was mainly used in the private sector, a few items had to be adjusted, or taken out, to ensure that it fits the public sector environment. Data were collected using a questionnaire drawn from the CEAI and measured EO in five dimensions namely: management support, autonomy/work discretion, rewards/reinforcement, time availability and organisational boundaries. It comprised three parts addressing each of the set objectives while the first part of the questionnaire focused on demography and experience. In order to increase the response rate the questionnaire was first emailed to all respondents who held valid email addresses. Then a first reminder was sent to the respondents after one month and a second reminder was sent to respondents 3 weeks after the first reminder.

4.3 Variables Measurements

All items for EO were adapted from existing literature and they covered five dimensions namely: management support, autonomy/work discretion, rewards/reinforcement, time availability and organisational boundaries. Four more dimensions were added to the questionnaire to measure performance namely: innovation, EO, risk and perceived organisational performance and measured on a four point Likert scale (1= strongly disagree to 4=strongly agree). A total of 75 items were developed and after pre-testing and consultation the questionnaire was refined and ended with 50 closed ended questions.

4.4 Reliability and Validity

Sekerak and Bougie (2009) indicated that the stability of items measuring the variables, also known as reliability can be determined through internal consistency. Cronbach Alpha is considered to be the most popular indicator of internal consistency. For the purpose of this study, Cronbach’s alpha coefficient was used as a reliability coefficient to estimate the internal consistency of the indicators. According to Bryman and Bell (2007), Cronbach Alpha calculated the average of all split-half reliability coefficients. A computed alpha coefficient varied between 1 (denoting perfect internal reliability) and 0 (denoting no internal reliability).

The validity of this study was examined from a number of different perspectives, including face, content, criterion-related and construct. Validity refers to the ability of the measuring instrument to measure the right elements that need to be measured (Zikmund, 2009). The Corporate Entrepreneurship Assessment Instrument (CEAI) has been used in various research studies, and was found to be valid. Various South African researchers, such as Chaka (2006), Gantsho (2006), Kriel (2010), Groenewald (2010) and Mabala (2012) have used the instrument and found it to be valid. To further validate the questionnaire factor analysis was conducted.

5. Findings and Discussion

From the statistical analyses performed, the results indicate that there is a significant relationship between EO and performance. While each dimension of EO was studied separately, the significance of risk taking was found to be the highest for better performance. The finding seemed to support Fairoz, Hirobumi and Tanaka (2010), Hameed and Ali (2011) and Koe (2013), in which it was indicated that assuming risk is related to firm’s performance. The findings of the study indicate that risk taking has a higher impact on performance as compared to other dimensions of EO. Therefore, employees should be risk takers in order to promote EO that will ultimately lead to improved performance. Public sector organisations need to cultivate a culture of entrepreneurship in order to improve performance and service delivery. The entrepreneurship literature has discovered that in order for an organisation to spur entrepreneurial mind-set amongst employees, it should have in place an effective reward system which must consider individual responsibility, their goals and resulting feedback driven by results based incentives (Baskaran et al., 2018). Platin and Ergun (2017) indicates that an existence of appropriate reward system encourages a risk-taking behaviour which in turn creates a tendency to behave more entrepreneurially. In previous research undertaken
by various scholars it was indicated that adoption of appropriate reward system is expected to motivate middle managers and create a desire for them to be innovative and pro-active while assuming required level of risks associated with entrepreneurial activity. In other words, there is positive association between reward system and employee EO when compensation systems are in place to contributing employees on the basis of value added to the organisation (Salvato, 2002; Bhardwaj, Sushil & Momaya, 2007). This theory was not supported by the findings of this study which indicated that there is no statistical significance between rewards and EO.

Rewards and performance management in the public sector is relatively more complicated due to the absence of the single overriding goal which ultimately dominates private sector companies. That is the motivation to make profits and provide satisfactory returns to shareholder interests (Boland & Fowler, 2000:440). One would normally expect that the prospect of higher financial gain would be a prime motivator for participation in entrepreneurial activities; however, in this study rewards did not have a strong correlation with EO. Therefore, it was concluded that employees in the public sector are not motivated by rewards.

A number of studies have indicated that entrepreneurship would not exist without innovation. In line with this claim, literature provides adequate evidence that innovation is the widely examined dimension of EO. Therefore, there is an intertwined connection and relationship between EO, innovation and performance (Zahra, Jennings & Kuratko, 1999; Covin & Miles, 1999; Bueno & Ordonez, 2004; Edison, Nauman & Torkar, 2013). The results of this study indicate that innovativeness did not have statistical significant relationship with EO, this could be due to the fact that the public sector is different from the private sector in that the environment is very bureaucratic, full of red tape, very rigid, governed by strict rules, policies and legislation, and as a result being innovative might not be possible.

The findings of the study indicate that public sector organisations can influence EO through the creation of an entrepreneurial culture – this can be done by an organisation that promotes entrepreneurship with support from management, encouraging risk taking and innovation, delegating of responsibility and avoiding overly rigid controls. This finding is supported by Hayton (2005) and Grandori et al. (2011) who indicated that perceived management support and organisational reward systems promote innovation and support an entrepreneurial culture.

Organisations are required to pursue those dimensions that are deemed appropriate to improve their performance. As previously identified in the literature review, EO and organisational performance linkage tends to be inclusive due to the fact that this relationship is context specific. Therefore, a conclusion is drawn from this study that EO has a relationship with organisational performance and that this is not only in the private sector but also in the public sector.

6. Conclusion and Recommendations

This study was performed with the aim of examining the influence of dimensions of EO on the performance of public sector organisations. Statistical tests revealed that dimensions of EO significantly and positively influenced the performance of organisations in the public sector. Risk taking was identified as the most important factor influencing perceived organisational performance and innovation was the only one that did not have a positive relationship with performance in this regard. Thus hypotheses 1 and 2 of this study were supported. This study provided several significant implications which contributed towards theory and also practice. The outcomes of the study point out that the findings might have important practical implications that can assist public sector organisations in becoming more entrepreneurially orientated, and can thus lead to higher performance. The findings of this study can therefore be used to develop policies and strategies that can be used within the public sector as a whole to improve performance. EO can be developed through training; employees should be trained on EO and on the benefits thereof. Management must promote new ideas, use the latest technology and collaborate with universities to improve EO in the public sector. In order to achieve sustainability management must have clear vision for the organisation, plan and develop appropriate strategies.

This study has numerous limitations. First the study was carried out only in departments and organisations that are under the MPSA, therefore the results cannot be generalised to other departments. Furthermore, although the study findings
may provide guidance to other organisations in the public sector, the specific MPSA environment may limit the study's generalisation. Future study must work on these limitations and take into account some other factors like culture of the organisation.

References


