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## Article

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## Corporate Entrepreneurial Climate: An investigation of South African Accounting Small and Medium-sized Enterprises

Rachel Khoza<sup>1</sup>, Darelle Groenewald<sup>2</sup>, Chris Schachtebeck<sup>3</sup>

**Abstract:** Government around the world, particularly in emerging economies such as South Africa, have recognised the socio-economic benefits Small and Medium -sized Enterprises (SMEs) hold. Despite this recognition and support, SME failure rates are still unsustainably high. For SMEs to survive, innovation and internal (corporate) entrepreneurship needs to take centre-stage. The purpose of this study is to assess the corporate entrepreneurial climate in South African accounting SMEs. Little empirical research exists in South Africa that addresses the importance of Corporate Entrepreneurship with reference to accounting SMEs. A quantitative research approach was followed by means of a self-administered questionnaire. A purposive sampling approach yielded 102 responses drawn from the South African Institute of Professional Accountants database. Results indicate that positive support for corporate entrepreneurship exists, with four main dimensions of Corporate Entrepreneurship being evident. Time availability, however, was lacking in the sampled enterprises. This study positively contributes to the body of knowledge in accounting SMEs, particularly around the existence and promotion of Corporate Entrepreneurship. The results of the study can serve as an indicator for South African accounting SMEs, and related industries, in terms of assessing the existence of a corporate entrepreneurship climate.

**Keywords:** corporate entrepreneurship; accounting SMEs; small and medium-sized enterprises;

**JEL Classification:** M13; L26

### 1. Introduction

Small and Medium Enterprises (SMEs) hold an important position in economies around the world, particularly in developing economies, where their contribution to economic growth cannot be overstated. (Fatoki & Garwe, 2010; Jaska, Khan, Hunjra, Rehman & Azam, 2011) Due to the socio-economic importance of SMEs, governments around the world are actively seeking to promote SMEs in order to further economic growth. (Fatoki & Garwe, 2010; Jaska et al., 2011) SMEs hold a multitude of benefits for an economy by creating employment, positively contributing to export growth, as well as fostering innovation and building entrepreneurial skills. (Mahembe, 2011; Abor & Quarterly, 2010) In South Africa, the promotion of SMEs has been identified as a priority area for the South African government (Department of Trade and Industry (DTI), 2010). Yet despite the vocal support from both government and the private sector, SME failure rates are still unsustainably high, with the impact being felt by the business owner and the economy as a whole. (Cant & Wiid, 2013; Orie, 2013)

The problems experienced by SMEs are mirrored within accounting SMEs, with Professional Accountants (PAs), who are owners of accounting SMEs, having to overcome a multitude of challenges, such as technology, competition for business, economic decline and retention of customers among others. Competition for business, in particular, has become increasingly fierce, and as a result

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accounting SMEs are placed in a position in which solutions have to be developed in order to gain and retain a client base. (Vorster, 2015) These solutions are best met by means of innovation, creativity and technology, with the goal of value creation and an improvement in competitiveness. The task of increasing the likelihood of survival of accounting SMEs does however not merely rest on the shoulders of the PAs, but also on government, in order to grow the number of SMEs (SAICA, 2015). SMEs are therefore, firstly, required to identify internal weaknesses, such as traditional methods of management and secondly, SMEs need to identify new methods of doing business, entering markets and developing new technologies and products. (Zehir, Müceldili & Zehir, 2012) In the modern economy, the pace and method of doing business has fundamentally changed due to a rapidly changing, threatening and global environment, requiring enterprises to adapt much more rapidly in order to survive. (Kuratko, Morris & Covin, 2011) Enterprises whose capabilities include adaptability, innovativeness and responsiveness place themselves in a better position to adapt to the challenges of an increasingly competitive and evolving external environment. (Heavy, Simsek, Roche & Aidan, 2009) Internally, executives and managers of enterprises face the challenge of having to consistently re-evaluate the competitive landscape, re-engineer operations and alter strategic and operational plans for purposes of survival in a turbulent and global marketplace. (Kuratko et al., 2011) Enterprises therefore have to transform to become more entrepreneurial and innovative, as innovation is considered the only lasting source for the enterprises to remain competitive. (Morris & Kuratko, 2002) Accounting SMEs harbour the potential to be innovative by adapting to new technology, the capability to try new solutions and systems, as well as the ability to adapt to a changing marketplace. (Vorster, 2015)

Corporate Entrepreneurship (CE) has in the past, from a conceptual point of view, been regarded as a phenomenon that only applies to large corporates. It is now common cause that CE can be implemented at any enterprises, regardless of size and type. (Morris et al., 2008) In support, Hancer, Ozturk and Ayyildiz (2009) state that CE is of vital importance, and can be implemented, in SMEs, non-profit and government enterprises. CE, when implemented effectively, allow enterprises to position themselves towards future market opportunities, exploit an existing competitive advantage to a greater extent, improve competitiveness and enhance viability. (Kuratko et al., 2011; Zehir et al., 2012) However, for CE to be implemented effectively, managers within enterprises need to continually assess prevailing levels of entrepreneurial activity, in order to accurately gauge the status quo of internal entrepreneurship. (Morris, Kuratko & Covin, 2011) For the full benefits of CE to be realised sustainably, the use of the Corporate Entrepreneurship Assessment Instrument (CEAI) is recommended by Morris et al. (2011). Kuratko *et al.* (2011, p.381) define CEAI as “a diagnostic tool for assessing, evaluating, and managing the internal environment of the company in a manner supports entrepreneurship”. This study therefore will make use of the CEAI to assess the corporate entrepreneurial climate in South African accounting SMEs.

## 2. Problem Statement

Accounting SMEs face similar survival challenges as SMEs in other industries. These accounting SMEs are therefore under pressure to survive and remain competitive, especially when viewed against the backdrop of a rapidly changing and increasingly competitive business environment. For Professional Accountants, as the owners of accounting SMEs, it is of utmost importance to adapt their enterprises to new technology, build capabilities and fostering an internal commitment towards innovation. (Vorster, 2015) Innovation is regarded as one of the pillars of Corporate Entrepreneurship,

and enhances the ability of SMEs to survive in continuously changing and fiercely competitive marketplaces. (Kuratko et al., 2011) Yet, the topic of Corporate Entrepreneurship within South African accounting SME has not been explored. This lack of research creates a knowledge gap as it is not known what the levels of corporate entrepreneurial climate are within this particular type of SMEs. It becomes apparent that there is possibility that some accounting SMEs lack a corporate entrepreneurial climate within the enterprises concerned.

### **3. Literature Review**

The literature review will address the following aspects appropriate to the study: defining and explaining the concept of corporate entrepreneurship; assessing a corporate entrepreneurial climate and elaborating on accounting small and medium-sized enterprises.

#### **3.1. Corporate Entrepreneurship**

Corporate Entrepreneurship, as a body of knowledge, has evolved over the past three decades. (Kuratko et al., 2011) Guth and Ginsberg (1990, p. 5) view CE holistically, by emphasising that “corporate entrepreneurship encompasses two major phenomena: new venture creation within existing enterprise and the transformation of enterprises through strategic renewal”. Zahra, Neubaum and Huse (2000, p. 297) on the other hand argue that “CE can be formal or informal activities aimed at creating a new business within the existing enterprise through product and process innovations and market developments”. Conceptually, Kuratko et al. (2011, p. 11) argue that CE “involves the generation, development, and implementation of new ideas and behaviours by the enterprise”, while at the same time fostering the ability to effectively build and utilise capabilities regarded as innovative.

Enterprises have been required to constantly evolve and innovate due to global competition, rapidly changing technologies and increasing customer demands. (Ireland & Webb, 2009) CE positively contributes to an enterprises’ ability to innovate and compete in a competitive marketplace, as it allows an enterprise to transform itself, improve its competitive positioning, as well as transform its market and industries in terms of exploitative opportunities for innovation. (Miller, 1983; Khandwalla, 1987; Lumpkin & Dess, 1996; Zahra, Kuratko & Jennings, 1999)

The effectiveness of an internal entrepreneurial architecture largely depends on an enterprise’s environment, as “entrepreneurial firms thrive in environments of change, chaos, complexity, competition, uncertainty and even contradiction. Entrepreneurial enterprise is the one that foster entrepreneurial environment that is conducive for entrepreneurial and innovative behaviour”. (Burns, 2013, p.475) A number of researchers have stressed the importance the internal organisational environment plays in building innovation capabilities. (Kuratko, Hornsby & Covin, 2014) Five antecedents exist which favourably influence the creation of a corporate entrepreneurial climate. These antecedents include top management support, work discretion/autonomy, rewards/reinforcement, time availability and organisational behaviour. (Hornsby, Kuratko, Shepherd & Bolt, 2009; Kuratko, Ireland & Hornsby, 2001; Kuratko, Montagno & Hornsby, 1990)

#### **3.2. Assessing a Corporate Entrepreneurial Climate**

The internal climate in an enterprise is a product of people’s expectations, practices and attitudes of key managers. (Timmons & Spinelli, 2007) In order to accurately assess an entrepreneurial climate, enterprises need to establish a benchmark in order to evaluate the current climate and future changes

in climate. These changes can be expressed as benchmark indicators. (Hisrich & Kearney, 2012). For an enterprise seeking to promote corporate entrepreneurial activity, the measurement of certain dimensions underpinning an innovative environment is of importance. (Kuratko et al., 2014) Corporate entrepreneurial actions should not only be measured as a once-off effort, but be monitored and measured on an ongoing basis. (Morris & Kuratko, 2002) One such tool to measure corporate entrepreneurial climate is the CEAI (Corporate Entrepreneurial Assessment Instrument). The CEAI was originally developed by Kuratko et al. (1990) and highlighted that organisational structure, rewards and top management support, are the three crucial antecedents of an entrepreneurial environment. The instrument was later refined and extended by adding work discretion/autonomy and resource availability as additional determinants of entrepreneurial behaviour. (Hornsby, Kuratko & Montagno, 1999) Hornsby, Kuratko, and Zahra (2002) extended this instrument by developing a 48-item CEAI, that measures the five dimensions of corporate entrepreneurial culture (1) management support, (2) work discretion/autonomy, (3) reinforcement, (4) time availability, and (5) organizational boundaries. (Hornsby et al., 2002) *Management support* makes reference to the managerial stance, in terms of willingness and support, towards promoting entrepreneurial behaviour by means of public support and provision of resources (Ireland, Kuratko & Morris, 2006; Kuratko et al., 2011; Kuratko et al., 2014). *Work discretion/autonomy* refers to the organisational stance towards empowerment of employees, in terms of tolerance of failure, delegation of authority and the allowance of self-directed work. (Ireland, Kuratko & Morris, 2006; Kuratko et al., 2011; Kuratko et al., 2014) *Rewards/Reinforcement* makes reference to creating and using systems which have the aim of celebrating and rewarding desired, positive entrepreneurial behaviours. A reward system that encourages employee risk taking tends to promote innovation and entrepreneurial behaviours. (Ireland, Kuratko & Morris, 2006; Kuratko et al., 2011; Kuratko et al., 2014) *Time availability* is availability of extra time needed to create innovate and create new jobs, in-line with organisational goal setting (Ireland, Kuratko & Morris, 2006; Kuratko et al., 2011; Kuratko et al., 2014) Lastly, *organisational boundaries* refer to the organisation, and management, clearly stipulating the expected work outcomes, as well as methods of evaluation of innovation. Flexible boundary setting can induce, direct, and encourage coordinated innovative behaviour across the enterprise. (Ireland et al., 2006; Kuratko et al., 2011; Kuratko et al., 2014)

### 3.3. Accounting Small and Medium-sized Enterprises

In South Africa (SA), the National Small Business Act (NSBA) (1996, p. 2) defines a small business as “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more, which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in Column 1 of the Schedule”. Within this ambit fall accounting SMEs, often referred to as Small and Medium-sized Practices (SMPs). IFAC, the International Federation of Accountants, is tasked with promoting SMPs and thereby building SMP capacity. (IFAC, 2015) SMPs are mostly established and run by Professional Accountants (PAs) that provide professional services to other SMEs, including audit and assurance and business advisory services. (IFAC, 2015) IFAC (2012, p. 3) defines SMPs as “accounting practices whose clients are mostly SMEs, external sources are used to supplement limited in-house technical resources, and contain a limited number of professional staff”. ACCA (2010) explains that accounting SMEs have the following characteristics:

- clients are SMEs from other sectors;
- ordinarily does not audit listed companies; and

- non-assurance services make up the bulk of work performed.

Accounting SMEs comprise the vast majority of accountancy practices worldwide and employ the majority of PAs. PAs who own accounting SMEs provide professional services mostly to other SMEs due to their size. (IFAC, 2015) The services provided by accounting SMEs allow their SME clients to fully exploit their capabilities by growing rapidly and creating employment opportunities. (Hoepli, 2015)

In 2015, the global SMP survey highlighted a number of challenges that accounting SMEs face, these included inter alia attraction of new clients, retention of existing clients, pressure to lower fees, late payments, managing cash flows, succession planning, cost increases, enabling employee work-life balance, retention of existing staff, differentiation efforts, adapting to changing technology, adherence to changing regulations and servicing international clients. (IFAC, 2015) These challenges, which are similar to those faced by SMEs in other industries, are compounded by accounting SMEs having limited resources and a finite management capacity (The Edinburgh Group, 2013). These constraints and rapidly changing market conditions have created a need for entrepreneurial activities by means of adopting an entrepreneurial culture. (Kuratko et al., 2014)

#### **4. Research Methodology**

This study was quantitative in nature and followed a descriptive research approach, as the purpose of descriptive research is to “gain the profile of events, persons or situations”. (Saunders, Lewis & Thornhill, 2012, p. 159) The study was quantitative in nature as it aimed to measure the behaviour, knowledge, opinions and attitudes of the accounting SMEs concerning corporate entrepreneurial climate. The study empirically assessed corporate entrepreneurial climate in accounting SMEs by utilising a survey research strategy. For the survey, the corporate entrepreneurial climate in accounting SMEs was assessed by means of the CEAI, originally developed by Kuratko et al. (1990) and expanded by Hornsby et al. (1999; 2002) Section A of the instrument investigated demographic factors, while the remainder of the questionnaire was structured around the five dimensions of a corporate entrepreneurial climate.

The study utilised a non-probability sampling approach by means of purposive sampling. The sample was drawn from a member database of the South African Institute of Professional Accountants (SAIPA). The parameters of interest for this study were respondents who are owners, managers, employees (including trainees) registered under SAIPA. A self-administered questionnaire was distributed to potential respondents as part of the survey strategy methodology. The survey was distributed physically, as well as electronically. The sample was drawn from the northern provinces of South Africa, viz. Gauteng, Limpopo and Mpumalanga. A total of 500 questionnaires were distributed, with 132 questionnaires being returned. 102 questionnaires were found valid for analysis, culminating in a response rate of 20.4%. Data was analysed in SPSS by means of frequency distributions, custom tables, means and standard deviation, reliability analysis and an exploratory factor analysis.

#### **5. Findings**

Firstly, the reliability and validity analysis will be presented, followed by the demographic variables of the respondents and lastly the results from the CEAI will be presented.



### 5.1. Reliability and Validity Analysis

Reliability analysis to test the internal consistency of the measuring instrument was done by means of the Cronbach Alpha. A value of  $>0.6$  indicates good internal consistency of the items in the scale. (Zikmund Babin, Carr & Griffen, 2010) All constructs of the instrument scored above the threshold value of 0.6, with the exception of Time Availability (TA), which scored 0.508. This can be attributed due to the number of responses received. A summary of the values can be observed in Table 1.

**Table 1. Cronbach Alpha values**

| Constructs                     | Cronbach Alpha Values | No. of items |
|--------------------------------|-----------------------|--------------|
| Management Support (MS)        | 0.940                 | 19           |
| Work discretion (WD)           | 0.852                 | 10           |
| Rewards/Reinforcements (R)     | 0.844                 | 6            |
| Time availability (TA)         | 0.508                 | 6            |
| Organisational Boundaries (OB) | 0.786                 | 7            |

*Source: Own compilation*

Validity testing of the instrument was conducted by means of construct validity. Two measures, namely Kaiser-Mayer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett's Test of Sphericity were utilised to determine whether factor analysis was feasible, as well as whether there existed sufficient correlation between the items in the data collection instruments. Results showed that all values for KMO were above a value of 0.60, with values ranging between 0.702 and 0.909. All values for Bartlett's test for Sphericity were statistically significant (i.e.  $p\text{-value} = 0.000$ ), indicating that the constructs were suitable to run exploratory factor analyses and can be regarded as valid.

### 5.2. Demographic Variables

Of the 102 respondents, 44 were male (43.1%) and 58 were female (56.9%). The majority of respondents (34.3%) fell between the ages of 30 and 39 years. Twenty-six (25.5 %) of the respondents were between 18 and 29 years, while 23 of the participants (22.5%) were between the ages of 40 and 49 years. Eighteen respondents (17.6%), the smallest grouping of participants, were aged 50 years and above. In terms of racial distribution, 58 respondents (56.9%) were White, 35 respondents (34.3%) were Black African, six participants (5.9%) were of mixed-race origin, while three participants (2.9%) were of Indian/Asian descent. These results therefore reflect that the majority of respondents were of white ethnicity. In terms of position within the enterprise, most respondents (54) were owners or partners (52.9%), followed by 35 general employees (34.3%). The smallest number of participants (13) were managers (12.7%). Most of the sampled accounting SMEs (59) consisted of a partnership of two people (57.8%), with 28 SMEs operating with only one owner (27.5%). Twelve accounting SMEs had between 3-4 partners (11.8%), while three accounting SMEs had 5 or more partners (2.9%). In terms of educational level of respondents, most (51%) were undergraduate degree holders. 44.1% were post-graduate degree holders and only 4 respondents (3.9%) possessed only a school-leaving certificate, with only one participant possessing no school leaving certificate.

### 5.3. Corporate Entrepreneurial Climate Variables

The CEAI instrument utilised a 5-point Likert Scale, with 1 indicating strongly disagree and 5 indicating strongly agree. As the instrument is structured around five key dimensions of corporate entrepreneurial climate, the findings are presented in terms of these five dimensions. Table 2 summarises the means and standard deviations for the five investigated dimensions.

**Table 2. Means for all constructs**

| <b>Construct</b>               | <b>Mean</b> | <b>Standard Deviation</b> |
|--------------------------------|-------------|---------------------------|
| Management Support (MS)        | 3.0973      | 0.84210                   |
| Work Discretion (WD)           | 3.4196      | 0.83013                   |
| Rewards/Reinforcement (R)      | 3.5735      | 0.85035                   |
| Time Availability (TA)         | 2.7026      | 0.87742                   |
| Organisational Boundaries (OB) | 3.6054      | 1.00828                   |

*Source: Own compilation*

When using a 5-point Likert Scale, a mean of 3 and above indicates agreement, whilst a mean of below 3 indicates disagreement. Table 2 illustrates that the mean scores for all the constructs, except time availability, were above 3. This indicates that, overall, respondents are in agreement that management support, work discretion, rewards/reinforcement and organisational boundaries are present in the respective SMEs, thereby indicating a positive corporate entrepreneurial climate. The value for time availability fell below 3, indicating that respondents did not perceive time being made available to them to pursue corporate entrepreneurial efforts.

*Management Support* - Management support for innovative efforts of employees were found to be evident. The statements “My enterprise is quick to use improved work methods”, “In my enterprise, developing ideas for improvement of the enterprise is encouraged” and “Top management is aware and very receptive to my ideas and suggestions” elicited particularly strong responses, with mean values of 3.82, 3.83 and 3.81 respectively.

*Work Discretion* – Respondents indicated agreement that sufficient leeway being present for individuals to innovate and experiment. This finding was evident in the statements “This enterprise provides the chance to be creative and try my own methods of doing the job” and “I have much autonomy on my job and am left on my own to do my own work” where mean values of 3.70 and 3.75, respectively, were recorded.

*Rewards/Reinforcement* – All statements for this dimension recorded a mean of above 3, with respondents indicating that outstanding work performance is celebrated, rewards were linked to the work performed, and that positive work performance resulted in recognition and increased job responsibilities.

*Time Availability* – Overall, respondents did not perceive sufficient time being made available to act entrepreneurially. Respondents indicated that not sufficient time was available to perform all required tasks (mean = 2.32), and indicating that workload acted as a barrier to the development of new ideas (mean = 3.42). Additionally, long-term problem solving suffered as a result of time pressures (mean = 2.94).

*Organisational Boundaries* – Respondents indicated knowing what the expectations placed on them by the organisation and management. There existed strong consensus on following standard operating procedures (mean = 3.81), and little doubt on what was expected of employees in terms of major tasks (mean = 3.99). Respondents further indicated existence of clear performance levels in terms of amount, quality and time lines of output (mean = 3.85).



## 6. Conclusion, Recommendations and Managerial Implications

Enterprises around the world are facing an uncertain and rapidly changing environment. In order to flourish and survive amongst the realities of the modern economy, enterprises need to be innovative by means of adopting CE. Accurate knowledge of the internal corporate entrepreneurial climate allows SMEs to position themselves more favourably in the headwinds of the competitive environment. This holds particularly true in the accounting industry, where SMEs face challenges similar to SMEs in other industries. The purpose of this study was therefore to assess the current prevailing corporate entrepreneurial climate in accounting SMEs. Findings showed that management support is perceived to be evident within accounting SMEs. Similarly, respondents indicated that work discretion/autonomy is used to promote CE within accounting SMEs. Rewards and reinforcements positively contributing to a CE climate were perceived as being present. Organisational boundaries for evaluating, selecting organisational work and development using innovations are present within accounting SMEs. However, not sufficient time is being made available to individuals in accounting SMEs to pursue innovation.

The study recommends that highlighting the value of CE to accounting SMEs is of utmost importance, due to the benefits it holds. Accounting SMEs should further provide internal CE training initiatives, as well as foster an environment conducive to CE. Managers within accounting SMEs should support innovative initiatives by employees, provide resources for experimentation, reward innovation, and tolerate risk-taking and failure. The reduction in bureaucracy and implementation of flexible policies can further assist in fostering a climate conducive to CE.

This study positively contributes to the body of knowledge around accounting SMEs, which, to date, has not been explored to a great extent in South Africa. The findings of the study act as an indicator for South African accounting SMEs in terms of assessing the existence of the corporate entrepreneurship climate. The findings assist accounting SMEs in understanding corporate entrepreneurship, and therefore allowing management within these SMEs to adapt their businesses to act more entrepreneurially. Future studies can be conducted on a wider, country-wide scale. Also, there exists scope in future studies to include other prominent accounting bodies other than SAIPA.

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