

# ICSB GAZETTE

THE GLOBAL LEADER SUPPORTING MICRO-, SMALL AND MEDIUM ENTERPRISES

MONDAY, SEPTEMBER 23, 2019. ISSUE 35

## ENABLING INNOVATIVE BEHAVIOR IN ENTREPRENEURIAL MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

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**"The bottom line is that the atmosphere of a work group is directly influenced by the behavior of the "leader of the gang." We need more transformative leaders to change the world."**

### Abstract

A plethora of new reports, materials, products, new financial networks, coupled with new joint venture possibilities, affect the way Micro, Small, and Medium-sized Enterprises (MSMES) do business globally. The number of articles, books, and symposia written on the role of the MSMEs in developing change and innovation is overwhelming. However, the literature fails to examine the affect national, city, and organizational climates have on entrepreneurs and the MSME's ability to prosper in a very dynamic marketplace. For those of us involved and concerned about innovation and change, to overlook the key elements of climate distorts our understanding of the critical elements needed to foster entrepreneurial and innovative ecosystems.



This report will attempt to add to our understanding of how entrepreneurs and MSMEs interrelate with their climate to create innovative products and services. Researchers, managers, and government officials are becoming increasingly interested in examining how individuals and MSMEs can create an innovative and creative climate. This interest is fueled by the desire to understand the link between climate and the influence it has on individuals to develop and initiate new products, services, and systems. This relationship between climate and innovative behavior lead to interest in the field of micro and small business and entrepreneurship. This report will attempt to further explain this phenomenon from the perspective of the entrepreneur and the impact on the company.

### Introduction

Researchers, managers, and government officials are becoming increasingly interested in examining how individuals and MSMEs can create an innovative and creative climate. This interest is fueled by the desire to understand the link between climate and the influence it has on individuals to develop and initiate new products, services, and systems.

This relationship between climate and innovative behavior has led to interest in the field of micro and small business entrepreneurship.

This report will attempt to further explain this phenomenon from the perspective of the entrepreneur and its impact on the company. To present our discussion, I have arranged this report in the following manner: I will first explain the entrepreneur from a behavioral viewpoint. Second, I will explain what I mean by organizational climate. Third, I will explain what I mean by innovative behavior. Fourth, I will discuss how the entrepreneur affects the creation of the organization's climate. Finally, I will explain how organizational climate affects innovative behavior. Entrepreneurial Behavior A literature review of what an entrepreneur is can be dated back to 1938 when Murray (1938) attempted to explain that the difference between entrepreneurs and other individuals is based on their attitudes and behavior.

"They work hard and are driven by an intense commitment and determined perseverance; they see the cup half full, rather than half empty; they strive for integrity; they burn with competitive desire to excel and win; they are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter; they use failure as a tool for learning and eschew perfection in favor of effectiveness; and they believe they can personally make an enormous difference in the final outcome of their ventures and their life."

Some of the best-known research about examining the personality characteristics of entrepreneurs has been conducted based on David McClelland's theory of need for achievement (Anderson, 1978; McClelland, 1961; McClelland & Winter, 1969). Many writers assert that risk-bearing is a prime characteristic of an entrepreneur (McClelland, 1961 & Timmons, 1978).

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3. Sees and acts on opportunities	Seizes unusual opportunities to start a new business, obtain financing, land, work, space, or assistance.
4. Efficiency-	Looks for or finds ways to do things faster or at or less cost.
5. Concern for high-quality work	States a desire to produce or sell a top or better-of-quality product or service.
6. Systematic	Breaks a large task down into subtasks or sub-goals, anticipates obstacles, evaluates alternatives.
7. Monitoring	Develops or uses procedures to ensure that work is meets standards of quality.

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#### COMMITMENT TO OTHERS

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8. Commitment to work contract	Makes a personal sacrifice or expends extraordinary effort to complete a job, pitches in with works in their place to get the job done.
9. Recognizes the importance of relationships	Acts to build rapport or friendly relationships with customers, sees interpersonal business relationships as a fundamental business resource, places long-term good will over short-term gain.

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Source: David C. McClelland (1987), "Characteristics of Successful Entrepreneurs"

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McClelland's work (McClelland, 1987) was a cross cultural study on the characteristics of successful entrepreneurs regardless of country and type of business. He reports three groups of competencies: 1) the entrepreneurs seem more proactive, 2) they show several characteristics of previously identified achievement motivation, and 3) they show a commitment to others stressing the importance of customer satisfaction. Table 1 gives a fuller description of these characteristics.

Herzberg (1989) characterizes entrepreneurs as unconventional. He attributes entrepreneurial actions to those persons who take responsibility and pride in their jobs, and who, because of the "passion" and joy they have in their jobs, use their intellect to innovate new solutions to conventional problems. He also points to the ability to behave effectively in ambiguous situations as an indicator of the maturity and confidence that innovators and entrepreneurs bring to the economic table. They thrive on change, chaos, and disequilibrium and fail to understand why others don't.

Without ambiguity there can be no innovation. The greater the tolerance for ambiguity, the more one's internal freedom to experiment. Entrepreneurs thrive in ambiguous environments (Herzberg, 1989). Joseph Schumpeter (1936) offers another view of entrepreneurship. He proposed the economic concept that a "state of equilibrium" was the fundamental view of economic theory. His provocative views on the entrepreneur originated in his conception of the economy as a "circular flow" of the stream of goods exchanged between buyer and seller and facilitated by money as the indicator of value. This circular flow is in a state of "equilibrium."

While the entrepreneur could not play much of a role in a state of equilibrium, Schumpeter did see the entrepreneur as a significant force in the economy. He was careful to make the distinction between inventions and innovations. For Schumpeter, the entrepreneur was the innovator par excellence. As an innovator, entrepreneurial actions disrupted the existing Equilibrium State. More definitively, entrepreneurs were paradigm pioneers who forged ahead and were quick to predict paradigm shifts and recognize the implications of advances that were harbingers of new paradigm development that would be in opposition to existing conventional wisdom.

If you continue to review the literature that followed, you will discover that the same approach was used to explain what an entrepreneur is through descriptions of personality characteristics considered common among entrepreneurs (Fernald & Solomon, 1987).

Thus, it is difficult to paint a portrait of an entrepreneur because of the conflicting results of studies in the field (Fernald & Solomon, 1987). Fernald and Solomon examined entrepreneurs using Milton Rokeach's Value Survey. Rokeach's (1973) definition of a value was an enduring belief that a specific mode of conduct or end-state of existence is preferable over any other specific modes of conduct or end-state of "existence." Thus, when I can say that an entrepreneur has values, I refer to his/her beliefs about desirable modes of conduct or end-states of existence, that is to means and ends, respectively (Fernald & Solomon, 1987). These kinds of values are referred to as instrumental or means-oriented, and terminal or ends-oriented.

Fernald and Solomon conducted empirical research on 200 entrepreneurs in Orange County, Florida. Their findings indicated that entrepreneurs have in a set of common values both terminal and instrumental (See Table 2).

### **What is Organizational Climate?**

Organizational climate has its roots in the field theory of Kurt Lewin (1951). According to Lewinian field theory, the social world can be divided into the environment, the person, and the behavior:

This formula has distinctly divided the organization into three parts: the person, the environment, and behavior. The importance of separating all three is that the person has become a single variable that can be studied. Translated into management terms, this means that the "subjects" of that system, most often employees, workers, or

Table 2  
The Top 5 Terminal & Instrumental Values of Entrepreneurs

Terminal Values	Instrumental Values
1- Pleasure	1- Ambitious
2- True Friendship	2- Broadminded
3- A Sense of Accomplishment	3- Honest
4- A Comfortable life	4- Loving
5- Salvation	5- Imaginative

Based on this research, one can argue that entrepreneurs can be defined in terms of values. These values give expression to human needs and have a strong motivational component (Rokeach, 1973).

The "agents" of an organizational system, such as the entrepreneur and management, are often assumed but seldom studied (Denison, 1996). The impact the system has on the agents (managers) and subjects (employees) are examined in a non-recursive logic that neglects the process in which the social environment is constructed (the creation of the organization) by the individual members it comprises (Denison, 1996). Thus, Lewin's definition of climate analytically separates the entrepreneur (agent), the employees (subject), and the organization (environment).

Yet, Lewin's definition of organizational climate over the years has increasingly been a concern. Guion (1973) addresses this problem by asking the question "Was organizational climate to be conceptualized as an individual or organizational attribute?" Until today, the dilemma of which unit of theory to use has not been resolved. In this report, I will view climate as a joint property of both the organization and the individual (Ashforth, 1985). It is both a macro and micro construct (Ashforth, 1985). As such, climate is a "system variable" (Field & Abelson, 1982), serving to integrate the individual, the group, and the organization (Schneider & Reichers, 1983).

Schneider (1975) suggested that there are many types of climates, while Schneider and Reichers (1983) wrote, "to speak of organizational climate per se, without attaching a referent is meaningless". Therefore, in this paper the climate I am stressing is the innovative climate existing or being created or being thwarted in the organization. This definition of organizational climate allows for the analysis of how the individual responds to a specific climate, which encourages them to exhibit innovative behavior.

At the individual level, climate is a cognitive interpretation of an organizational situation that has been labeled "psychological climate" (James, James, & Ashe, 1990). Individuals in the psychological climate respond primarily to cognitive representations of the environment "rather than to the environments per se" (James & Sells, 1981). Therefore, climate represents signals that these individuals receive concerning organizational expectations of behavior and potential outcomes of behavior (Scott & Bruce, 1994). The individuals will then use this information to create expectancies and instrumentalities (James, Hartman, Stabbins, & Jones, 1977). These individuals will also regulate their own behavior in order to realize positive self-evaluative consequences such as self-satisfaction and self-pride (Bandura, 1988).

Until now, I have given you the historical definition of organizational climate. Yet, the question that still lingers is what is it really? I define climate as the atmosphere that surrounds human interaction within an organization. It is the emotional atmosphere that surrounds and envelops the interpersonal relations among and between people in the organization. It is a tone or the context within which organizational behavior occurs. Every organization has a

climate, no matter how large or how small. Families have climates--some being formal and polite with low emotional content; others are loud, raucous, rambunctious, and emotionally saturated. Countries have climates such as the real-estate climate which may be cold while the business climate is very hot. Within organizations I may find some units (or departments) that are intense while others are laid back, some formal and ritualistic while others informal and iconoclastic.

There are number of ways to describe organizational climate. The following is a model developed for this report based on a model proposed by Gibb (1980). This model has considerable leeway for the purpose of simplicity, easy usage, and remembering.

Table Climate

Defensive	Supportive
1- Evaluative	1- Descriptive
2- Problem-Centered	2- Solution-Centered
3- Procedure-Oriented	3- Vision-Oriented
4- Neutrality	4- Empathy
5- Individuality	5- Collegiality
6- Certainty	6- Entrepreneurial

The climate generated under the conditions listed under:

and are characterized by malicious obedience, immature reactions, and behaviors frequently characterized as CYA's. The supportive climate on the other hand, leads to behaviors that are open, trusting, risk taking, responsibility-seeking, pro-active, mature, and growth-seeking.

Defensive climates have the ability to preserve position power, achieve immediate short run results, and develop obedience to direct commands. The disadvantages lie in the passivity, dependency, limited resourcefulness, one-upmanship, blamefixing, finger pointing, and risk avoidance. The values and satisfaction needs developed under these conditions lead to rigid, fixated responses that limit skill utilization and may destroy competency while highlighting manipulative skills and "political behavior."

Supportive climates have some immediately discernible "disadvantages" in that they place a heavy burden on the leader to communicate constantly, frequently behavior and decision-making appears disorganized, decisions seem to take a long time, participation and inclusion seem unwieldy, and people seem to behave in an independent, opinionated way. The advantages are that human resources continue to grow in confidence, competence, and skill and implementation of change is rapid and accepted. An appreciation of diverse competencies, as well as acceptance of difference, is evident. The values and need of satisfaction developed under a supportive climate will reflect a valuing of competence and growth and a concern for colleagues at both the capability and the emotional level.

The remaining point to be mentioned is the relationship between climate and innovation. The aurora that exists in a climate that fosters innovation is one that can be related to Herzberg (1985), Peters, and Waterman's (1982) use of passion. People are excited, spontaneous, impertinent, questioning, argumentative, experimental, and dedicated to problem solving and production. The spirit is one of outright "Can Do". The attitude is rarely one of "why we can't" but one of "how can we?"

Therefore, the aura of excitement transmitted by the leader is extremely important. We must be able to share the passion and become a fan of creating, of risk taking, and of delivering products and services. Reliance on rules and procedures may stifle the job of creation, so rules need to be reviewed constantly.

In the next section of our report, I will propose a definition of innovative behavior from the individual standpoint. I will also discuss the interrelationship between innovative behavior and the role of the entrepreneur.

## **Innovative Behavior**

Innovation has become the buzzword for all organizations in the past five years as new technology has become a normal part of everyday life. Yet, to understand what innovation means, it is important to first understand its main objective.

The central role of innovation is the long-term survival of organizations (Ancona & Caldwell, 1987). Ideas are the foundation innovation is based upon and it is people who "develop, carry, react to, and modify ideas" (Van de Ven, 1986). Therefore, it is important to understand that innovation is based on the individual's effort to perform. From this perspective, it is important to understand what motivates or enables individual innovative behavior to occur.

West and Farr (1989) noted that "there has been scant attention paid to innovation at the individual and group levels".

Individual innovation begins with problem recognition and the generation of ideas or solutions, either novel or adopted. During the next stage of the process, an innovative individual seeks sponsorship for an idea and attempts to build a coalition of supporters for it (Scott & Bruce, 1994). In the third and final stage, the individual completes the idea by producing "a prototype or model of the innovation that can be touched or experienced, that can now be diffused, mass produced, turned to productive use, or institutionalized" (Kanter, 1998).

Thus, innovation in the entrepreneurial firm is viewed as a multistage process, with different individual behaviors necessary at each stage. Since innovation is actually characterized by discontinuous activities rather than discrete, sequential stages (Schroeder, Van de Ven, Scudder & Polley, 1989), individuals may be involved at different stages (Scott & Bruce, 1994).



The definition that we stated for the individual innovation has laid out three 124 interacting systems--individual-leader or entrepreneur-work group or departmentclimate. The individual is our focus of attention because without them no innovative behavior can occur. The entrepreneur or leader is also important because he/she is the agent that effects the individual directly or through the climate. The work group or department will not be discussed in this paper because of the different dynamics that occur. Yet, we do concur that group effect does occur on individual innovative behavior. The culture and climate are important because the effect they have on the individual.

## Entrepreneur's Effect on Organizational Climate



Through their values and consequent behavior, entrepreneurs influence the organization's climate. O'Farell and Hitchins (1983) argue that the entrepreneur/ owner personalities, in particular their values and goals, are indistinguishable from the goals of their business. It is suggested that the entrepreneur's personal values influence the strategies they adopt in operating their businesses, and ultimately, the performance of their business (Thompson and Strickland, 1986).

In the initial stage of the creation of the organization, the entrepreneur is the focus. The business revolves around the founder (the entrepreneur) as they retain all decision-making authority (Dyer 1986). The founder typically recruits his/her followers to help him grow the business. In this stage, the organization is in survival mode and therefore the founder and his/her followers will strongly bond together to defend against the uncertainties of the environment. Schien (1990) explains that the business is creating its own climate through the founder's behavior. Because the founder might be in a very competitive and aggressive mode, the group will typically reflect or adopt that type of behavior. The reason the group will replicate the founder's behavior is because they perceive it necessary for survival. The organization that seeks to survive the initial stages of inception fosters a sense of urgency, protection, and bonding between its employees.

The second stage is when the organization is no longer in survival mode. In this stage, the climate of the organization is still influenced by the founder. The behavior of the founder still has an effect on the employees. The founder's behavior such as aggressive, competitive, and spontaneous will be transmitted to the other employees and that will influence their behavior.

The importance of the entrepreneur at this stage is their perceived importance to the employees. If the entrepreneur is charismatic and strong-minded the employees of the organization would view him/her with an aura of respect and awe. This image coupled with their behavior creates an organizational climate for that certain moment of time. The climate could change depending on the employee's view of the entrepreneur and their behavior at that time.

The final stage of the organization is when the founder no longer plays a role in the management of the company. Their presence might be symbolic. The organization is now professionally managed, and its climate is or has changed because the founder or entrepreneur no longer plays an active role in the daily operations that allow them

The new manager that will interact with the employees will change the existing climate through their own behavior. The employees will start to adapt to the new climate that the new manager creates.

To sum the point about climate, the organizational climate is influenced heavily by the behavior of the manager that is in power at that time. Initially, if the entrepreneur or founder's personality was aggressive and competitive, the employees operated under a competitive and aggressive organizational climate. The new manager might have a different personality and their behavior might reflect other traits. The employees will then adjust to the new climate and their behavior will change.

### **Climate's Effect on Innovative behavior**

There is a paradox in speaking or writing about motivating any kind of behavior, but especially motivating innovative behavior. At the very outset, it should be very clear that individuals who speak of "motivating" anyone are purely and simply dead wrong in the use of the term. Individuals are motivated all the time. A much more appropriate way of discussing the issue is to speak about guiding or shaping motivated behavior.

I believe that one of the fundamental motivations of individuals is to pursue their own growth in competence, skill, and creativity; to act upon the world rather than to react to the world; and to shape the environment as well as be shaped by their surroundings. Individuals always operate within this dilemma; "human behavior is influenced (shaped) by the environment, but it is an environment created and developed by human beings." (Skinner, 1971). The real challenge, therefore, is to structure an organizational climate which will foster and reward the excitement, enthusiasm, and experimentation that accompanies innovative and entrepreneurial behavior.

The most straightforward statement of how behavior is learned, modified, and encouraged is summed up in these six words: "Behavior is determined by its consequences." (Luthans, 1975) For our purposes, it is clear that organizations that foster and reward innovation will stimulate more of the same behavior. It is important to note that when an organization appears to reward, it is the behavior that will be seen as the model for success.

There is nothing inherently right or wrong about a particular climate. What is important is that it is perceived by the individual to be conducive to innovative behavior in "their business". Some companies are "natural" innovators, with a strong innovative tradition and a climate in which innovation is managed intuitively rather than systematically. These are more likely to be small rather than large companies and often ones in which the founder of the company is still very much in evidence. Other companies innovate "systematically". Driven by corporate ambition, top management instigates explicit systems and mechanisms to make innovation happen. This is a natural route open to large companies.

Hence, given climate conceptualization as a determinant of an individual's innovative behavior, I can present the following statements:

When an innovative climate has been created and the company has survived its nascent phase, management must sustain this atmosphere by motivating and rewarding individuals that continue to behave in that manner. This can be done by entrusting and empowering individuals who developed a new product or service with more freedom to innovate and create.

Management should tolerate the disregard of organizational structure limitations. They should accept that individuals benefit from the experience and judgment of experts from within and outside the company to develop new ideas. Thus, seminars, conferences, and internal trade shows should be attended to stimulate "networking." Universities and other companies are valuable external resources for developing new ideas.

Management should tolerate failures. Coming up with new products, processes, or approaches that work is a messy

Cultivating, motivating, and rewarding innovative behavior is instrumental to further growth. As Herzberg has stated, "There are people who would maximize the probability of success." These people are motivated. Then there are individuals who "minimize the probability of failure." These individuals merely exist and seek safe havens." Providing individuals who portray innovative behavior with added responsibility should be considered as a means of encouragement. Innovative companies recognize the importance of measuring results and developing budgets to sustain innovation. What must be measured is the number of innovative ideas generated and developed rather than the passing of project milestones, and the contribution to growth and earnings directly attributed to new products and processes.

## Conclusion

Innovation and entrepreneurship are needed in society as much as in the economy, in public services as much as business. What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continuous. It will require the entrepreneurs/leaders in all institutions to make them ongoing, everyday activities.

This report's objective was to stimulate thinking in this field and to initiate an empirical stream of research. I believe that organizational climate is important in influencing the individual's innovative behavior. The climate existing within an organization is much more important to the ability of an organization to adapt, be creative, and continue to grow as well as define and redefine the organization's core competencies. The setting of organizational climate, work unit climate, or departmental climate is also within the control of a single manager's behavior.

Thus, the wise manager/leader will understand that in order to lead their SME into a formidable future, it is important to look at their organizational climate and make the changes needed to allow innovative behavior to occur.

The bottom line is that the atmosphere of a work group is directly influenced by the behavior of the "leader of the gang." We need more transformative leaders to change the world.





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