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Creating the Entrepreneurial Organization – a values-based leadership algorithm

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Abstract

The paper aims to position entrepreneurship within a leadership and values paradigm. This knowledge will equip business leaders, who may wish to evoke a more entrepreneurial culture within organisations, to proactively create conditions that support entrepreneurial initiatives.

As psychology provides numerous theoretical models that explain personal development, this paper integrates these into a comprehensive model applicable to the development of business culture. As any organisation is a composite of the individuals comprising it, the developmental process followed by individuals also applies to organizations. Since it is known that the dualistic human capabilities of autonomous decision making and rational-considerate conduct are developed alternately and sequentially, it follows that organizational development is dependent on the composite progress of those working in it. A six-step journey representing the staged progression of organizations has been plotted around the two axes of maturity and autonomy. The paper explores the characteristics of the six steps, introducing a Values-Based Leadership Algorithm, which informs how an organization may be induced toward the requisite entrepreneurial culture.
As this research paper is conceptual, research should be undertaken to empirically test the Values-Based Leadership Algorithm.

The paper will be of value to those who wish to increase leadership effectiveness, including business leaders and academics in the areas of leadership, organization development, and entrepreneurship. The Values-Based Leadership Algorithm adds a unique perspective to the notion of leadership effectiveness by providing a way for firms to design leadership practices that are conducive to the paradigm of thinking best suited to their employees’ developmental needs as well as the firm’s stage of growth and transition.

Keywords:

Values-Based Leadership Algorithm, Values Journey, Entrepreneur Development, Culture Change, Congruence.
Introduction

Entrepreneurship may be seen as one type of leadership orientation, namely that of leading a business venture. The notion of ‘doing business’ is generally associated with certain ways of thinking, world views, or paradigms: Generating profits for shareholders is one paradigm, whereas meeting stakeholder needs, for example, is another. The definition of the entrepreneur as ‘a person who creates something of value and assumes the risk of building a business around it’ (Robinson et al, 2007: 413) incorporates the three criteria, namely innovation, risk and implementation. The study of entrepreneurship has typically focussed on best practices aimed at maximising profits, minimising risk, and managing innovation, the importance of organizational cultures that support and encourage entrepreneurial endeavour has also been noted.

The research questions of this paper are therefore two-fold: Firstly, what is the entrepreneurial paradigm, and secondly, how can business leaders create and sustain it?

This paper aims to position the entrepreneurial paradigm on the Personal and Corporate Values Journey model (Robinson, 1998, 2008). The model schematically represents the life journey of individuals and firms, portraying it as a step-wise progression. Advancement is, alternately, horizontal and vertical. As depicted by the X and Y axes, advancement in responsibility alternates with advancement in autonomy.
Figure 1: The Personal and Corporate Values Journey Chart (Robinson 1998, Robinson & Harvey 2008)

Figure 1 illustrates the two planes of human development, namely autonomy and personal freedom versus rational and considerate conduct. Since it is practically impossible to develop in both directions simultaneously, what emerges is a step-wise journey that depicts individuals being ushered intermittently along first one, then the other axis. Six value stations, each representing an essential step in the journey, are depicted.
Relevant Literature

The field of entrepreneurship has traditionally been approached from two viewpoints: Kirzner (1997) studied the effects of environmental and economic factors on entrepreneurship, while Shaver and Scott (1991) focussed on entrepreneurial behaviour. Vecchio (2003) recommended that research into entrepreneurship development should attempt to bridge the gap between these two approaches.

Karl Vesper (1980 in Hisrich & Peters 2002: 7) admits that entrepreneurs are seen differently by the likes of economists, psychologists, businesspersons, and politicians. The entrepreneurship field has therefore been defined in various ways, yet three pivotal aspects of entrepreneurship set it apart:

1. The entrepreneur as a risk bearer. Cantillon, (1730; in Outcalt, 2000; Hisrich & Peters 2002) is attributed with coining the term ‘entrepreneur’ and recognising the distinctive risk-bearing behaviour. The entrepreneur has since been depicted as an economic functionary who undertakes the responsibility of uncertainty (Knight, 1921).

2. Jean Baptiste Say (1830 in Outcalt, 2000) describes entrepreneurs as organisers taking on the managerial functions of co-ordination, organization and supervision. The entrepreneur is the one who combines the land of one, the labour of another, and the capital of yet another, thus producing a product.

3. Considered by some the father of the study of entrepreneurs, Schumpeter’s (1912/34) twin theories explain how innovation and technological change
originate from ‘wild spirits who make things work’ (Langlois, 1987). Casson (2005) further characterises entrepreneurs as being able to innovate and improvise solutions to problems which cannot be solved by routine alone, which is to say they operate outside the established rules.

Similar to the above, Long (1983) considered three distinct traits in entrepreneurship, namely: uncertainty & risk, complementary managerial experience, and creative opportunism. Hisrich & Peters (2002:66) suggest that successful entrepreneurs have a higher internal locus of control than the general populace. Bygrave & Hofer (1991) describe the entrepreneurial process as that of grasping opportunities and creating the organisational capability to pursue them.

Cowan and Todorovic (2000) emphasise the importance of the relationship between values and strategic development. While an organisation’s purpose may be determined by its leader, his behaviour may also establish the so-called ‘moral tone’ of the organisation (Badaracco and Ellsworth, 1989:72; Hisrich, Peters and Shepherd, 2005). It is also clear that the values espoused by business leaders within organisations arise from the application of their personal values within the business context (Robinson, Davidsson, Van derMEScht and Court, 2007). Three layers of values relevant to leadership have been identified. It is within the layer known as deep values that individual and organisational behavioural systems emerge (Cowan and Todorovic, 2000:2).
Psychology has provided numerous theoretical models that explain personal development, such as, Maslow (1954), Kohlberg (1958), McCleland (1961), Piaget (1965), Alderfer (1969), Covey (1990), Beck and Cowan (1995), Rotter (1996), and Egan (1997). Some of the aspects borrowed from psychology for this paper are listed here:

1. The classic motivation theory, Maslow’s (1954) Hierarchy of Needs, illustrates a seminal five step personal development path starting from the essential physiological needs to the pinnacle of self-actualization. Robinson’s chart is not an alternative to Maslow’s Hierarchy; indeed it implies that such a hierarchy of needs exists within each of the identified value stations.

2. Kohlberg’s (1958) Stages of Moral Development introduced the notional ‘leaps of understanding’

3. McCleland’s (1961) typology of needs – power, affiliation, achievement.

4. Early cognitive development work by Piaget (1965) supports the notion of levels of thinking.

5. Alderfer (1969) recognised, that humans may simultaneously have, and indeed move between, successive need levels. He also realised that people create reinforcing behaviours that habitually lock them into a particular level.

6. Kofman & Senge (1993) - the ‘systems thinkers’, suggest that an innate tendency toward the quick-fix approach to life may have blinded some managers to the bigger picture, that is to say that by looking with immediacy at current situations, humans may gradually be losing their connection with the larger worldview, such that
humanity is becoming quite inept at dealing with long-term change and threats, such as global warming.


These theories each provide perspectives on human development that hold implications for business leadership. Thus, this paper, whilst borrowing liberally from the field of applied psychology, seeks to integrate them (see Figure 1).

Organisational structure is needed by new ventures (Vinell and Hamilton, 1999). Founders of emerging organisations are required to put forward a vision and define goals that provide motivation for personnel to work toward (Baum, J., Locke, E. and Kirkpatrick, S., 1998; Kirkpatrick, S., Wofford, J. and Baum, J., 2002).

The model shown in Figure 1 accommodates established psycho-social elements, such as conditioning, power, duty, dependence-independence-interdependence, ethics and holism. As each of these has a bearing on entrepreneurship, it also then provides a basis for developing appropriate leadership practices that support and enhance an entrepreneurial culture and in turn, equip emergent and nascent entrepreneurs, corporate managers wishing to evoke a more entrepreneurial culture, and academics who teach and research in the fields of entrepreneurship, with the ability to nurture entrepreneurial talent.
The basic level of human socialisation - individuals clinging together for safety – is known as ‘safe-bonding’. One step vertical is a station known as ‘power-seeking’. It is in these two stations where low-level social skills are found. Interactions between them are forced, false, and strained, tending to reinforce their respective conditioning, which is either avoidance of rejection (safe-bonding) or forced reverence (power-seeking). As power seeking is the dominant station in this pairing, an egocentric, ‘dog-eat-dog’ type culture, typified by aggressive in-fighting and power plays, often results. Relationships are not limited to this pairing. Safe-bonding seeks refuge within a paradigm of thinking that includes the subsequent submissive station, known as duty-complying, while power-seeking looks to the subsequent independence-oriented station, namely success-striving. The path to each of these crosses the ethical divide and represents a very significant step in the entrepreneurial development process.

At the opposite end of the values journey, to the right of ‘the holism divide’ lies a paradigm of inter-dependence, made up of two stations, known respectively as ‘peace-loving’ and ‘synergy-building’.

Lodged between the two extremes on the values journey, lies the business pairing of duty-compliance and success-striving. The two stations are complimentary to each other, yet distinctly different. The duty compliance station is characterized by respect for procedure and authority being the dominant drivers of acceptable behaviour. The underlying conditioning is a need to work hard and sacrifice now in order to inherit the
good life later. Leadership therefore entails rigid, procedure-bound, with formal and centralised authoritarian controls. Contrarily, the success-striving station has an underlying conditioning that argues for reaping fruits now. Thinking is less absolutistic, and more goal-directed. Materialism and affluence are highly regarded, therefore a corresponding opportunity-driven leadership style is demanded. Relations between the two are dutiful and productive, as long as the dominant station (success-striving) doesn’t manipulate the submissive (duty-compliant) one.

Each person begins the journey with a predisposed bias, known as conditioning, which can limit their progress. The conditioning applicable at each stage is shown in the chart below the X axis. Progress along the values journey is intended ‘in the direction of greater complexity’ (Beck and Cowan, 1996:62). As advancement is a response to the problems of existence, progress is marked by a degree of turbulence and uncertainty during the transition from one value station to the next (Beck and Cowan, 1996; Cowan and Todorovic, 2000). The relationship between follower and leader is critical during these transitional phases. Badaracco and Ellsworth (1989) stress the importance of leaders being able to espouse values that followers are able to identify with. Barney (1986:656) insists that strong cultures, synonymous with excellent management, are vital for improving a firm’s financial performance energises and motivates followers (Bennis and Nanus, 1985:80).

Transitioning between value stations is follows a determinable pattern, known as second-order change, as shown in figure 2.
Second-order may be defined as change that involves a paradigm shift in thinking. Consider, for example, the transition from Duty-compliant to Success-striving. Where previously duty, rules, self-sacrifice and obedience to rightful authority had been accepted as the normal modus operandi, questions surrounding ‘proper authority’ (Beck and Cowan, 1996:238) may begin to present some doubt in the mind. A certain
dissonance then develops as the person becomes aware of conflicts between the conditions of existence and the coping mechanisms that have become habitual. In recourse to such dissonance, it is usual to simply do more of the same. When that fails autonomy, independence and the need for achievement take centre stage (Cowan and Todorovic, 2000). Senge (1990) associates this transitional phase with leaders and organisations that display adaptive and ultimately generative learning behaviours.

This particular transitional process has been found to be characterised by:

- The realisation that strong attraction to the ‘musts’ and ‘oughts’ dictated by authorities is limiting to personal development.
- Realising there may be more than one right way – (not so sure what is absolutely right – perhaps there are many ways, but there may still be ‘one best way’).
- Becoming frustrated by the rules, with a corresponding desire for more autonomy.
- Wanting to see some fruits of your success (in this lifetime).
- Wants to be seen as successful (not just as hard-working).
- Argumentative toward authority.
- Feelings of self-sufficiency or being larger than life.
- Accepting of some multiplicity, justifying the ‘bending’ of rules for the sake of ‘expediency’.
- A willingness to indulge in calculated risk-taking.
It is thus possible to locate the entrepreneurial paradigm on the values chart. It is clear from the above that entrepreneurs most typically match the value station denoted as ‘success-striving’ in the Values Journey. This concurs with current practice, not least because they are, by nature of the role they adopt in society, persons intended toward successful business development. Examples of modern-day entrepreneurs that display these characteristics include Jack Welch, Donald Trump, and Richard Branson. It should not be overlooked that the station denoted as ‘success-striving’ is built upon and remains supported by that of ‘duty-compliance, as success may be short-lived unless underpinned by the values belonging to duty-compliance. Thus, the region on the Values Chart represented by the success-striving value station, as supported by duty-compliance, is indicative of the entrepreneurial paradigm. The paper will now explore the route to be followed in pursuit of this entrepreneurial paradigm.

The Values Journey chart illustrates that the development of values at work and within the organisation can be plotted as a stepwise progression. Accordingly, it is possible to track the development of a firm’s maturing process as it progresses through the identifiable value stations. Firms become entrepreneurial when their day-to-day practices are congruent with those of the success-striving value station, underpinned by duty-compliance. Table 1 shows six bands (each row is a particular values and leadership band), with their corresponding individual and organizational characteristics.
Table 1: The Six Bands (Robinson, 1990)

The table shows that, in firms where the preferred managerial process is entrepreneurial, it follows that the dominant individual need is for achievement, the common form of expected behaviour would be rational self-expression, and the dominant organizational culture would be progressive. Since the firm is actively evolving and the managerial orientation is toward results. It follows that the typical response to an operational situation would be to analyse before taking decisive action.
If it is true that ‘hidden values are evidenced in the way in which authority is delegated’ (Mintzberg et al, 2003:301), then leadership practices hold the key to organisational culture. The notion of leadership practices being aligned around a desired value station gives rise to the concept of congruence in management (Robinson & Harvey, 2008).

The Values-Based Leadership Algorithm (VBLA) (Robinson & Harvey, 2008) consists of the following axioms:

1. Since those possessing internal locus of control are most likely to become leaders (Rotter, 1966), it follows that the expressive stations will almost always preside over the submissive, i.e. Power-seeking will dominate over Safe-bonding; Success-striving will manage Duty-compliant; and Synergy-building will lead Peace-loving. [Different verbs are used to infer variations in the notion of what is regarded as appropriate within each paradigm].

2. Since each successive value station represents a step forward in development, persons at any station are best led by those already at a higher station, as they retain an understanding of the followers’ problems of existence and the corresponding appropriate ways of coping. Thus, Power-seeking individuals are most likely to accept Success-striving style leadership, and they, in turn, Synergy-building. Similarly, Safe-bonding looks up to Duty-compliant.

3. It is ineffective for a submissive station to attempt to lead an expressive, thus Power-seeking cannot be managed by or from either Safe-bonding or Duty-
compliant; and Success-striving cannot be managed by or from either Duty-compliant or Peace-loving.

4. Unhealthy leadership occurs when the leader regresses to a station behind that of the followers, e.g. Should the (success-striving) leader appointed to manage duty-compliant team members regress to Power-seeking, this would create an untenable situation for the followers.

The Values-Based Leadership Algorithm, depicted graphically in Figure 3, illustrates which value station can lead which, with optimal potential effectiveness.

The Values-based leadership Algorithm can be stated succinctly, with reference to figure 3, as follows: Each of the three upper (expressive) value stations can provide leadership to people residing in the same or prior stations (both upper and lower), but each of the
three lower (submissive) value stations are only able to provide leadership to their respective prior lower stations. Thus, Safe-bonding (purple) requires leadership from Power-seeking (red) or Duty-complying (blue). Success-striving (orange) can provide the required leadership for Duty-complying and Power-seeking. Synergy-building (yellow) will be the most effective station to lead Peace-loving (green) as well as Success-striving.

According to the axioms of the VBLA it follows that the entrepreneurial (i.e. success-striving) leader needs to be capable of managing people at the success-striving, duty-complying, and power-seeking stations.

With reference to the VBLA, it can be appreciated why entrepreneurs have been regarded as misfits within duty-compliant corporations. It also becomes clear why ‘intrepreneurs’, i.e. entrepreneurs engaged within corporate firms, often as change agents, may experience limited success when constrained by managerial practices more suited to duty-compliant values, or may be inept at dealing with sensitive human-relations issues (important to those at the peace-loving station and better managed by persons at the synergy-building value station).

**Implications**

As it has been shown that entrepreneurship can be situated, in general, at the values and leadership paradigm corresponding with the Success-striving band, then it would be true to say that if a person can be induced toward success-striving, with a sufficient
foundation in duty-compliance, then such a person could become entrepreneurial in their thinking. This suggests that entrepreneurial thinking could be purposefully nurtured, by moving persons stepwise toward success-striving behaviour. It is not impossible that m, through tailored educational programs combined with experiential learning under the guidance of the appropriate leadership and in the congruent culture that reinforces success-striving practices, the personal values typical of entrepreneurs can be induced. Furthermore, existing companies lacking in entrepreneurial culture can be rehabilitated through appropriate leadership practices, and by adopting congruence around the success-striving value station (underpinned by duty-compliance).

Conclusion

The Personal and Corporate Values Journey chart (Figure 1) locates the entrepreneurial paradigm within the journey of life, with the help of theories borrowed from applied psychology and management theory. The value station known as Success-striving, along with its corresponding managerial practices, matches those characteristics associated with successful entrepreneurial endeavour. Bands corresponding to the six value stations (Table 1) show how corporate culture may be made congruent with success-striving, entrepreneurial culture. A leadership algorithm, consisting of four axioms, is espoused and illustrated by Figure 3, depicting how the entrepreneurial organization can be induced and managed.
References


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