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The relationship between employee propensity to innovate and their decision to create a company

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Abstract

The main objective of this paper is to analyze the relationship between the decisions by employees' to initiate a new venture, whilst continuing in employment. Based on survey data collected from employees working for a public organization, we provide evidence that an analysis of individuals' propensity to innovate, provides an insight into entrepreneurial intention which increases in probability where there is a lower opportunity cost. This study contributes to the growing empirical literature on entrepreneurial intentions which currently lacks focus on employed potential entrepreneurs.

Keywords: Innovative propensity, entrepreneurial intention, public organization, opportunity cost.

JEL classification: F23, L25, L26

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1 Introduction

In times of economic flux, human capital is a key contributor to innovation and change, supporting organizational effectiveness (Bobic, Davis & Cunningham 1999). Innovative employees have been seen as the panacea for organizational sustainability (King & Anderson 1995; West & Farr 1990).

However, not all organizations have the necessary internal processes to capture potential talent (Van de Ven 1986). Project management can be seen as a way forward for more creative employees to demonstrate potential (Van Praag & Cramer 2001; Masclet and others 2009). This study focuses on how the capacity to innovate can impact on career opportunities, more specifically on the decision to become self-employed. We offer a different perspective, with a consideration of entrepreneurial intention and the role played by employees' propensity to innovate for individual entrepreneurial gain. The objective of this paper is to better understand how opportunity cost can influence this relationship. Data for the study is obtained from 149 employees within the Administrative and Service Department of a university.

2 Employees propensity to innovate and entrepreneurial intention

Innovation may be defined as a process that involves the generation, adoption, implementation and incorporation of new ideas, practices or artefacts within an organization (Van de Ven, Angle & Poole 1989). Employee innovation can be defined as engagement in innovative behaviours, which includes behaviours related to the innovation process, i.e. ideas generation, ideas promotion and ideas realization, with the aim of producing innovations (Scott & Bruce 1994, Ramamoorthy and others 2005). Previously, innovative behaviour was considered to be an "extra-role", or behaviour beyond the job description of many

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organizational members (Katz 1964). In recent decades, organizations have sought to promote innovative behaviour among employees as they attempted to deal with increasingly complex environments (Scott & Bruce 1994).

The literature identifies four groups of factors attributed to influencing innovativeness (West & Farr 1989): individual factors (e.g. relevant task knowledge or intrinsic motivation); job-related factors, (e.g. autonomy); team level factors (e.g. team composition or process) and organizational factors (e.g. culture, strategy or structure). Unlike this study, the above endeavoured to reveal conditions that best fostered employees' innovativeness towards improving organizational competitiveness. Possessing a propensity to innovate does not necessarily imply that propensity is directed towards new venturing. A number of factors including the organizational psychological climate impact on the extent to which creativity is managed and captured. A failure to recognise employee creativity may form a push factor towards new venture set-up.

In the light of the literature on entrepreneurship, there are reasons to assume that a positive impact of propensity to innovate on entrepreneurial intention is not of equal intensity in all contexts. Numerous studies compare earnings between self-employed and paid workers (e.g., Hamilton 1992), yet most of these have not focused on the performance of the would-be self-employed, before his/her decision to start a new business (Amit, Muller & Cockburn 1995). To a nascent entrepreneur, opportunity costs represent potential income from employment rather than through venturing activity (Cassar 2006).

Research demonstrates that the lower the opportunity costs the greater the likelihood to undertake entrepreneurial activity (Amit, Muller & Cockburn 1995). Cassar (2006) focused on individuals' human capital assuming that individuals with relatively high levels of human capital are more advantaged, and therefore are subject to higher opportunity costs.

Sabbaticals immediately lower the risk compared to those ending their employment and effectively cutting off an income stream. The security of having a fall-back position i.e. short term uncertainty versus long term uncertainty can positively influence the innovation propensity.

3 Methods

The context of the research and data

This research is developed in a public education organization: the University of Barcelona. The year that the study has developed the university had 87,486 students and 5,247 researchers and teachers. The organization is divided into 24 Faculties and University Schools and 106 departments.

This study utilises a sample of administration and service department employees from a pool of 2,448. Mailing resulted in a yield of 219 employee responses, of which 149 were included in the study, with 70 responses excluded for reasons of incompleteness, representing 6.9% valid responses, 7.8% sample error demonstrating a confidence level of 95%.

Measures

Respondents were asked to measure traits such as innovativeness, proactivity, propensity to take risk, personal attitudes towards entrepreneurial activities and entrepreneurial intentions. A number of demographic and control variables, such as age, a history of family entrepreneurship and employment status were recorded.

Entrepreneurial intention. It was based on the entrepreneurial intention scale primarily

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measured by subjective self-report of intention by employees.

Propensity to innovate. For this, we used a likert scale of individual entrepreneurial orientation (IEO), selected for the measurement of individual innovation propensity plus two other dimensions relevant for the potential entrepreneur and relevant for this study: proactively and risk taking. IEO was proxied by thirteen items on a Likert-type scale ranging from 1 ('totally disagree') to 7 ('totally agree').

Attitude towards self-employment features prominently in the literature as a determinant for individual entrepreneurial activity. We therefore include 5 items to measure this construct by means of a 7-point scale ranging from1 ('totally disagree') to 7 ('totally agree') (Liñán & Chen 2009).

4 Results

We found innovative propensity in employees has a positive relationship with entrepreneurial intention. Previous research applied in student samples showed results of a similar nature. The results show the significance that opportunity cost plays on the decision to pursue an opportunity. Employees with the opportunity of taking a sabbatical are able to avail themselves of the opportunity of self-employment with lessened risk and minimum cost.

Although previous studies have found that risk propensity is positively related to entrepreneurial intention in university students (Frank, Lueger & Korunka 2007), no such significant relationship was found in our study. Research in this area has contended that entrepreneurs do not think about risks in the statistical terms implied by many of the previous studies presented (Shaver & Scott 1991); indeed, it has been suggested that they do not actually perceive themselves to be undertaking high risk activities. (Corman, Perles & Vancini 1988; Palich & Bagby 1995; Simon, Houghton & Aquino 2000). This study shows that the opportunity to return to the same position, following a sabbatical, determines the influence that innovation has on their intention to create a company. Key, in assessing whether to start a business is the 'open door' potential, i.e. whether employees will be able to return following a period of absence towards entrepreneurial endeavour. Opportunity cost is much lower for employees able to return to their position after a period of absence.

Whilst the results show moderate entrepreneurial intention, some employees demonstrate an ability to initiate an entrepreneurial project. Twenty percent of the sample display serious entrepreneurial intentions. Analysis of the control variables reveal that intention does not correlate with hierarchical position or employment stability.

The results are useful for those wishing to investigate the antecedents of entrepreneurial intention and further research human resource management and retention practices.

5 Conclusions

We were able to provide evidence that employees' propensity to innovate can indeed add to an understanding of entrepreneurial intentions; moreover, we were able to highlight an important aspect of this relationship, namely the impact of cost on opportunity.

Our results should be interpreted in light of some limitations that naturally emerge from the design of the study. Among the factors potentially impacting on findings are:

Working environment and HR influences have not been analysed within this study.

How innovation propensity is defined in different environments can generate different results.

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Different sectors may well produce different findings.

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