

## Chapter 3

# Effect of the Intratrepreneurial Culture on the Innovative Activity of Spain's SMEs

**Domingo García Pérez-de-Lema**  
*Universidad Politécnica de Cartagena, Spain*

**Edgar Julián Gálvez-Albarracín**  
*Universidad del Valle, Colombia*

**Mónica García-Solarte**  
*Universidad del Valle, Colombia*

### ABSTRACT

*The objective of this chapter is to analyze the effect which entrepreneurial culture has over innovation on products processes and development of micro, small and medium businesses (SMEs). That is why an empirical study has been conducted with over 600 firms from Spain. The data processed through linear regressions by ordinary least squares (OLS) which indicates that all factors associated to intrapreneurship have positive effects over innovation activity in SMEs, especially those which are a big larger. These findings are important because they show to businessmen, entrepreneurs, industry leaders, academia and government that in the quest for positive innovation performance, they must promote within organizations the tolerance to risks and mistakes, adequate compensation, incentives, team work, managers support and flexibility in corporate structure.*

### INTRODUCTION

On the competitive environment of the growing global economy, innovation and being proactive might be the vehicles for enterprises survival (Knight, 1997), which implies that organizations must have a sense of entrepreneurship. Accordingly, they must seek for their employees to think in creative ways which drive innovation (Bedoya, Toro and Arango, 2017; Sungkhawan, Mujtaba, Swaidan & Kaweevisultrakul, 2012) in order to encourage and achieve employees developing entrepreneurial activities

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from within an organization. Consequently, intrapreneurial culture becomes fertile ground to allow for development (Morris, Kuratko & Covin, 2008) and it implies organizational learning driven by collaboration, creativity and individual commitment, values which compose small and medium organizations -SMEs (Hayton 2005).

Organizational culture is the way that the company has learned to manage its environment, a complex mix of assumptions, behaviors, stories, myths, metaphors, and other ideas that define what it means to work in a particular organization (Schein, 1985). The culture of a company has its origin in aspects such as its history and environment; it is manifested in aspects such as language, communication, the production system of material, social and immaterial goods, interpersonal relationships, leadership and subcultures (Zapata & Rodríguez, 2008).

Intrapreneurial culture promotes new ideas within organizations and the ability to take risks, and/or being able to redirect the existing strategy (Smith, 2007). These elements favor economic, environmental and social innovation (Widya-Hastuti, Talib, Wong, & Mardani, 2016). Intrapreneurial culture is composed of elements like individual autonomy of workers, tolerance to risk, relation of performance-reward, teamwork, managerial support and corporate flexibility (Garzón, 2004; Gálvez & García, 2011). Innovation must be considered not only as a business strategy, but rather as an everyday activity of enterprises (Lodh, Nandy & Chen, 2014) which allows the development of innovative capacity (Montoro & Ribeiro, 2011; Thompson, Heinonen & Scott, 2014). Studies about intrapreneurial culture have focused primarily on big enterprise and few studies have been done on SMEs (Cakar & Erturk, 2010; Dan, 2014; Khalili & Asmawi, 2012) despite strong differences in comparison to big enterprise in regard to work environment, organizational structure and work characteristics (Coppa & Sriramesh, 2013).

Innovation allows SMEs to achieve competitive advantages sustainable along the time, and constitute a determinant factor of the economic growth (Vermeulen, 2004). The importance of the SMEs in the current economic context has led the Public Administration to design public grants and programs whose main purpose is to encourage innovation investment at the SMEs, as a key element to improve regional development. The fact that currently SMEs work in a limited resources scene justifies the study of the impact associated to the SMEs innovative effort on the firm performance and the regional growth, due to the useful implications that may be obtained from the findings.

The purpose of this work is to analyze the effect that intrapreneurial culture has over innovation activity in SMEs, making a distinction between products, processes and characteristics of work. Thus, an empirical study was taken on with 600 SMEs from Spain. Due to the complexity and dynamism of the current enterprises environment, a deep understanding of organizations and variables that may favor innovative capacity of SMEs is required. Consequently, the fundamental question of this chapter is: does intrapreneurial culture favor innovative activity of SMEs?

## **BACKGROUND**

### **Organizational Culture**

Organizational culture can be considered as a “resource” or means to achieve objectives, and if that resource adds value, is different from the culture of other organizations and is not easily imitable by competitors, can become a competitive advantage and a “strategic asset” that supports success (Barney, 1986). Culture is a medium that could be managed to improve performance and achievement of objec-

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