

An Investigation of corporate entrepreneurship theories and their pragmatic usance into Price water house Coopers.

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Abstract: Corporate entrepreneurship is a complex concept that promotes innovation within big companies, though a friendly architecture that can motivate people to be creative to the external and internal environment, in order to compete in the market. The main objective of the study is to analyse the main theories and studying the main differences among them. These theories are critically analysed and compared with each other and a conceptual framework is developed based on the analysis conducted. The proposed researched company is PricewaterhouseCoopers, one of the four biggest auditing firms in the world, is therefore a good example of how a big company with a complex internal structure, takes necessary steps to motivate their employees to create new services based on evolving market trends. PricewaterhouseCoopers has an internal architecture that promotes entrepreneurship mainly because of a corporate culture that promotes the way of doing business within certain moral and legal parameters as well as a well-planned leadership program that trains the future managers in being creative, finding new business opportunities and developing innovative services. However, based on our study, we have concluded that PricewaterhouseCoopers has a very strict internal structure, where hierarchical levels are always respected and it is not possible to take action without the support of a superior in the organizational structure. On the other hand, while studying the alternate approach, it can be said that PricewaterhouseCoopers reacted to the change in the macroenvironment, innovating by creating a spin-off consultancy firm is also investigated.

Keywords: *Corporate entrepreneurship, Intrapreneurship, Corporate venturing, Innovation, Leadership, Individualism, Collectivism, Change management, Entrepreneurial architecture.*

Introduction and Objectives

Entrepreneurship as a concept has a wide range of meanings. Different business professionals, psychologists and economists have proposed a wide range of theories that would describe how they perceive entrepreneurship as a phenomenon that results in creation of something new by involving higher level of risk and uncertainty or taking a task as a challenge typically driven by certain forces or being an agent of change in a system that would have an effect on the economy etc. This study is primarily intended for review by students of Entrepreneurship who would like to understand the concepts and theories on the subject that a number of economists have developed. The main objective of the study is to analyse the main theories and studying the main differences among them. These theories are critically analysed and compared with each other and a conceptual framework is developed based on the analysis conducted. This conceptual framework based on the literature review is then applied to a corporate firm.

Divided into a number of chapters based on different tasks performed by individual group members, the report starts with the introduction of the chapters and the objectives the group had set out to achieve in their research. The next chapter primarily focuses the critical analysis of the

literature studied based on the chosen literatures as well as other sources of information such as the world wide web and other books on corporate entrepreneurship. Based on this critical analysis, a conceptual framework is developed, primarily used as a set of tools which are applied to PricewaterhouseCoopers, one of the largest professional services firm in the world, in order to study its entrepreneur behaviour based on a number of interviews conducted. These interviews and other sources studied have helped us in answering questions about the firm's view on entrepreneurship and how it promotes it within the firm, does the word entrepreneurship have a strong meaning to them etc.? Following this, the next chapter is based on the research methodologies the group applied in its study of corporate entrepreneurship and PricewaterhouseCoopers along with the limitations the study faced in its research. These limitations are followed by the list of facts and the researcher's findings in its study of PricewaterhouseCoopers while applying the conceptualized framework. The last chapter gives a conclusion that the group reached based on the conducted research, discussing how far the researchers were successful in its study of corporate entrepreneurship concepts in theory and in practicality.

Literature Review and Conceptual Framework

Entrepreneurship: Evolution of concept over the years

The word Entrepreneurship has evolved over time as the world's economic structure has changed and become more complex. There is no particular definition of entrepreneurship or an entrepreneur. The word entrepreneur comes from the French word 'entreprendre' meaning to undertake. Economists perceive an entrepreneur as one who brings resources, labour, materials and assets into combinations that makes their value greater than before. To a psychologist, such a person is typically driven by certain forces such as the need to accomplish something or to take a task as a challenge. To a businessman, an entrepreneur appears as a threat and an aggressive competitor etc. (Hisrich, Shepherd and Peters, Entrepreneurship 6/e, 2005). Burns views an entrepreneur as one who is dissatisfied with the lack of growth, trying to exploit forms of change and accepting higher risk and uncertainty (Burns, Corporate Entrepreneurship, 2004). Schumpeter on the other hand, views an entrepreneur as an individual who would carry out new combinations of resources while emphasizing the importance of innovation (Swedberg, Entrepreneurship, 2000). If we closely study different theories in this regard, almost all of them agree that entrepreneurial behaviour includes initiative taking, organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account and finally, acceptance of risk or failure (Hisrich, Shepherd and Peters, Entrepreneurship 6/e, 2005). However, in our opinion, entrepreneurship is a process of creating something new of value by devoting necessary time and effort, assuming the accompanying financial risks and receiving resulting rewards of monetary or personal satisfaction and independence, and the person who undertakes this task is an entrepreneur.

Corporate Entrepreneurship

Corporate Entrepreneurship seen more like an oxymoron, is a term used to describe entrepreneurial behaviour in an already established large organization. It is an emerging discipline leading to four main identifiable strands (Burns, Corporate Entrepreneurship, 2004):

1. Corporate Venturing
2. Intrapreneurship
3. Bring the market inside
4. Entrepreneurial Transformation

Entrepreneurial Architecture: The Importance

Burns discusses the architecture of a firm, a concept provided by Kay (1993) to describe the relational contracts within and around the organization among customers, suppliers and the employees. Like most relationships, architecture of a company is based on the concept of give and take, trust and mutual self-interest. It can be said that such an architecture leads to a network of relationships that may allow entrepreneurs to respond to opportunities or changes in the environment in a quick and effective manner. We believe the network architecture based on the complexity of the relationships, can be a major source of sustained competitive advantage for a company. Burns provides the example of Dell as partnering with people in developing relationships with their buyers and suppliers trying to develop both internal and external architectures. A number of knowledge intensive companies now a day are working on the same principles of strengthening their networks and trying to make their value chain processes as efficient as possible ensuring better business (Burns, Entrepreneurship, 2004).

A number of tools can be used by an entrepreneurial organization in building its architecture. Tools such as organizational culture, structure and leadership in an organization are seen most effective in building an entrepreneurial architecture (Burns, Corporate Entrepreneurship, 2004). The nature of this architecture is highly dependent on the external environment. It may vary with the nature of entrepreneurial intensity. However, in our opinion, entrepreneurial firms are more eager towards changing their structures based on unstable or disruptive environments.

Innovation

A number of authors stress entrepreneurship is a primary act projecting innovation which is similar to Schumpeter's view of entrepreneurship as a catalyst for innovation and the person responsible for this innovation being an entrepreneur. This is seen as a high-risk process virtually filled with uncertainty (Brouwer, Weber, Schumpeter and Knight on entrepreneurship and economic development, 2002).

On the other hand, corporate entrepreneurship promotes entrepreneurial behaviour within the organization (Burns, Corporate Entrepreneurship, 2004), essentially allowing the management to adopt behavioural style confronting bureaucracy and encouraging innovation. This change triggers innovation within an organization by examination of potential opportunities, resource acquisition, commercialization and exploitation of new

products /services.

Like traditional entrepreneurship, corporate entrepreneurship may also include attitudes and actions that promote the ability of a company to take risk, seize opportunity and innovate. Both internal and external architectures (environment) can influence innovation significantly (Burns, Corporate Entrepreneurship, 2004; Jin 2000). According to Burns, the organizational management determines the internal environmental setup by defining responsibilities to the personnel whereas it only adjusts to suit to the external environment. It can be seen that firms develop services / products which may lead to innovations either in products of newer ways of conducting business or efficient production procedures etc., due to changes in the environment. These changes are based on the company's relationship with its customers, suppliers, competitors in the market etc. As per Arrow (Swedberg, Entrepreneurship, 2000), innovation is seen as a two-stage decision process, where appropriate analysis must proceed in reverse order time i.e. first studying the decision on development expenditure given the research concept and research outcome, then analyzing the decision to engage in the research. In our opinion, these analysis decisions may include external scanning that involves filtering, searching and evaluating potential opportunities from outside the organization including related and emerging technologies, services and markets that can be exploited by a combination of available resources.

When it comes to corporate entrepreneurship, innovation is an ambiguous word to define. In simple terms, it can be defined as a process that provides added value and a degree of novelty to the organizations, its suppliers and customers through development of new procedures, solutions or products as well as methods of commercialization (Swedberg, Entrepreneurship, 2002).

On the other hand, organizational innovation capacity of a firm can be connected to supportive cultures, organization's management knowledge (learning), motivated and creative individuals, innovative business strategies, integrated structures, leadership and vision components (Burns, Corporate Entrepreneurship, 2004).

Entrepreneurial Leadership

Burns in his research distinguishes differences between management and leadership dividing each of them into categories that best describe them. Management is concerned with handling complexity in an organization, its planning, organizing, commanding, coordinating and controlling are seen as the five main functions. Leadership on the other hand is seen as setting direction and goals, communicating them to the employees and motivating them to carry out the tasks leading in the set direction. Leadership is

considered to have the five main elements (Burns, Corporate Entrepreneurship, 2004):

1. Having a vision
2. Effective communication, especially of the vision
3. Being able to think strategically
4. Creating an appropriate organizational culture
5. Controlling monitoring performance

Timmons (1999) views entrepreneurs as leaders who have set visions or goals that inspires the staff and are capable of managing situations or projects in the long run. In our opinion, a major quality of an entrepreneurial leader is his charisma, his vision and his ability to communicate it to the employees.

Leaders, as per Senge (1992), are seen to have three main tasks:

1. Designing the organization and its architecture in order to encourage learning process
2. Being a steward of a vision inspiring the staff
3. Teaching learning or developing systematic understanding of how to approach and exploit change

Culture is seen as a binding force in an organization where leaders strive to construct and define such a culture based on factors mentioned below (Burns, Corporate Entrepreneurship, 2004):

1. Clarity of vision
2. Effectively communicating the vision
3. Guide in the development of policies and programs
4. Encourage enactment of vision
5. Show concern and respect for co-workers.

Vision being a shared mental image of desired future, formally communicated through mission statements, are said to be key elements in both entrepreneurship and leadership. Developing a company vision is seen as a continuous process based on modifications done to suit changing circumstances.

Burns also mentions a number of qualities in an entrepreneurial leader such as leadership style, his charisma, his values, his ability to manage difficult situation, his communication skills, his ability to motivate his team, ability to resolve situations through collaboration or comprise using informal ways. Entrepreneurial firms face an ever changing environment with uncertainty and ambiguity. It is how they manage such situations is what leads the company in being successful (Burns, Corporate

Entrepreneurship, 2004).

Entrepreneurial Culture

Various definitions of Culture reflect theories for understanding human activity. In the most common way, culture comprises of values and norms. From an organizational perspective, Cornwall and Perlman (1990), define culture as organization's basic beliefs and assumptions in describing what the company is about, how its members behave and how it defines itself in relation to its external environment. Hofstede (1980) on the other hand, describes culture as a set of collective programming of the mind distinguishing one group of people from another. Hofstede views culture as a pattern of taken-for-granted assumptions that influence how people in an organization perceive, think and feel in relation to situation.

Culture evolves overtime and is influenced by a number of factors. Language is seen as an essential element of the culture as it is used to convey views

and beliefs that a group may have to the world. In our observation, cultures are stronger when they are reinforced in a consistent way by different elements that influence them. The core of any culture is the values that it holds which change very slowly over time (Burns, Corporate Entrepreneurship, 2004).

Bowman and Faulker (1997) talk about constructing a culture embedded in an organization and is influenced by three main elements; organizational process, cognitive process and behaviours.

In figure 1, we see the three elements that influence the culture, along with the values. Organizational process defines the leadership styles adopted by the entrepreneur, the company structure and how the routines are conducted etc. Cognitive processes are based on company ethics, beliefs, attitudes and rules of conduct. Behaviour includes how things actually get done, following the rules, job titles, slogans etc.

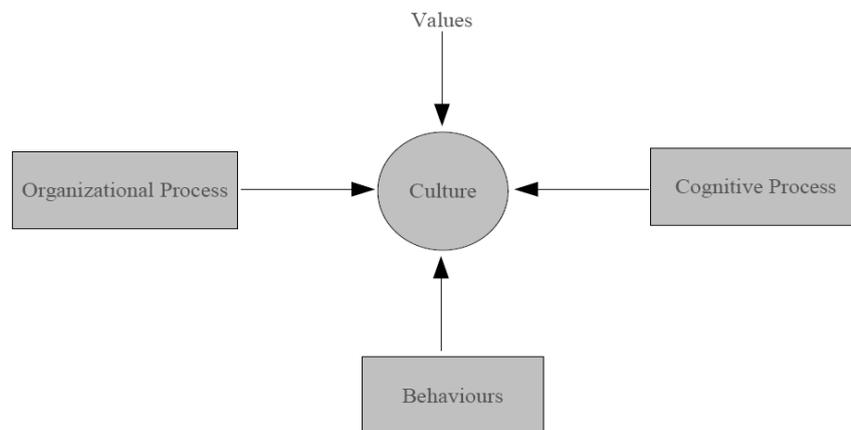


Figure 1: Constructing Organizational Culture

Hofstede (1981), in his extensive cross-cultural study of IBM's corporate culture established four main dimensions of corporate culture namely:

1. Individualism vs. Collectivism
2. Power Distance
3. Uncertainty Avoidance
4. Masculinity vs. Femininity

Hofstede and Bond (1991) have also added the fifth dimension based on short / long-term orientation focusing on the future with more dynamic values associated with it. As the organization grows, the culture grows with it and needs to adjust and develop requiring skills in change management. Re constructing may involve processes of redefinition of values, priorities and objectives which may later need effective communication to the employees. Entrepreneurial culture needs to motivate people to do the right thing in the right manner for organization as well

as themselves by giving them a vision and a belief that they can achieve it.

As per our observation, in recent times, a number of companies have constructed and developed their own cultures. This can be primarily observed in the knowledge intensive industries such as Microsoft, Apple, Google, Yahoo! etc. where a very informal culture is seen in practice which leads to the individual employees performing better as well at trying their hand at creativity in coming up with newer projects / products that may lead to corporate entrepreneurship or intrapreneurship.

Entrepreneurial Organization

Burns (2004) in his research, discusses the constituents that help build up an entrepreneurial organization, in which he explains the size factor in the large corporations that are going through processes of deconstruction; a process where a large organization is broken down into a number of

sub-organizations with varying degree of autonomy. By doing this, the larger firms try and replicate the flexibility of smaller firms, each unit of which focusing on a particular task, constantly trying to innovate itself. Burns argues that the initial stages of innovation as a particular form of task requires a totally different culture that may not be seen in the corporate offices. Such changes may allow the firms to maintain different cultures as well as different structures, staffing and remuneration.

Taking this idea further, larger organizations also have newer ventures in the form of spin-offs that facilitate the innovation and development procedures. In some cases, firms rather than re-inventing partner themselves, have mergers with or make acquisitions of smaller firms with entrepreneurial management. While mentioning a number of other authors, Burns (2004) suggests the future is brighter in smaller firms with downsizing, re-engineering and creative network organization, and all these factors leading to dismantling bureaucracy. Burns takes Dell and similar companies as an example of companies that are already working on the basis of deconstruction whereas other firms like ABB, Coca-Cola, Benetton, Honda are also in process of de-layering which and trying to develop an efficient supply chain. A number of newer trends such as outsourcing, newer HRM techniques and strategic alliances are also mentioned that are being practiced in today's age (Burns, Corporate Entrepreneurship, 2004). Burns encourages entrepreneurial activities, the layers of management need to be kept to a minimum to ensure flexibility and responsiveness.

Firm Structures

Burns (2004) further discusses the large firms' structures where traditional hierarchical structures are increasingly being altered into cross-functional structures based on reassigning staff resulting in the matrix structures. These changes in structural organization based on task complexity and environment lead to organic structures where power is completely decentralized and authority is linked to the expertise. However, a generic picture of an organic structure in an organization cannot be painted as it is company specific and it is constantly forming and reforming to meet the changes the company may face as it keeps taking on more complex tasks. Corvin and Slevin (1990) argue that the entrepreneurial behaviour within and organization is positively correlated with performance when the structures are organic (the opposite in bureaucratic ones).

Another structure that Burns mentions is the network structure comprising of an internal or external network of independent members unified by a common purpose sharing the results that follow their collaboration. An example of such a

network can be the internal network of an SBU. Concepts known as virtual structures based on the information technology to link many individuals or independent organizations at various locations are also discussed and are related to the network structure based on the development of such links and relationships (Burns, Corporate Entrepreneurship, 2004).

Burns points out that 'strategic fit' is the key factor in the success of a corporate venture, which may result in firms preferring investment in smaller businesses in order to capitalize on their innovations as well as maintaining a decentralized structure in the new spin-offs.

Managing Entrepreneurial Organization

Many traditional management techniques discourage corporate entrepreneurship. However, in cases where individuals within the organization behave entrepreneurially, Morris (1998) points out the six barriers they may have to overcome:

1. Systems
2. Structures
3. Strategic direction
4. Policies and procedures
5. People
6. Culture

It is suggested, the management can either ignore these barriers, work around them (intrapreneurial behaviour) or remove them completely (entrepreneurial behaviour). Apart from that, Burns also mentions a number of other barriers that may hinder the entrepreneurial activities in the organization. Barriers like return on investment, avoiding risks, enforcing standard procedures and rules, long term planning, making decision based on past experiences, managing functionality and promoting individuals who conform etc. (Burns, Corporate Entrepreneurship, 2004).

Change Management

Change is seen as an important element in a company's growth and activities. From an employee's point of view, changes are based on succession of crises and external environment. Managing such change is highly crucial. As the organization passes through changes, individuals may face turbulent behaviours while facing newer challenges and demands of their newer roles. Kakabadse (1983) in his change / denial curve pointed out the three main phases based on the unfamiliarity of individuals with their new roles and how they can affect their performance. The first phase is seen as the denial phase, second phase points out the depression an individual may suffer

in the wake of change and the third phase is where the individual may get used to the new reality and tries to put himself together in order to work things out and improve his performance.

Change is seen as the continuous acquisition of knowledge – the development of what is called a learning organization. Hamel (2000) points out that knowledge management and organizational learning are closely related to continuous improvement. Corporate entrepreneurship embraces change, encouraging it to the point where it is seen to normal.

Birkinshaw's BP Model

It is suggested that managers should give up control in order to gain control. Entrepreneurial firms need to loose control but keep tight accountability. Too much control stifles creativity, innovation and entrepreneurship. Too less control on the other hand can lead to disastrous results in the corporation. For this purpose, a balance is required for such companies. Birkinshaw (2003), created the BP model to help organizations to help maintain such a balance, it involves four main elements:

1. Space or slack: looseness in resource availability
2. Direction: strategy and goals
3. Support: knowledge transfer and training systems
4. Boundaries: underlying morals and ethics

An Employee's Point of View

An important point is also considering the employee as a micro scale of corporate entrepreneurship. Employees are the first ones who will be influenced by any change conducted by the management. Usually corporate managers

focus on motivating the staff when conducting a people-oriented change in the organization by helping them deal with the change with proper training, creating the sense of urgency for the need of change, briefing them on how the change will take effect, keeping them informed on their progress through the change, breaking down the bigger change processes into smaller stages for employees to effectively get used to newer routines and roles and demonstrating the continued commitment to the challenge the organization is facing etc., (Burns, Corporate Entrepreneurship, 2004).

Conceptual Framework

Analysis of the literature and the data gathered from various articles and journals has led us in developing a conceptual framework. This conceptual framework was used as a collection of tools to study different aspects of corporate entrepreneurship in a large corporation, in our case, PricewaterhouseCoopers, a professional services firm based worldwide.

The framework is based on basic concepts provided by Burns and Swedberg in their works. We will have a look at the corporate environment of a company, particularly looking at its internal environment motivating enough for the employees to participate in the innovation of activities. Such a motivating environment is created based on a strong entrepreneurial architecture. In our framework, the architecture comprises of three main elements such as Organizational culture, the organizational structure and the importance of leadership. All three of these elements complement each other and act together in creating an internal environment of the company that influences the motivation of the employees at different levels to innovate in creating new products and services that can benefit the organization.

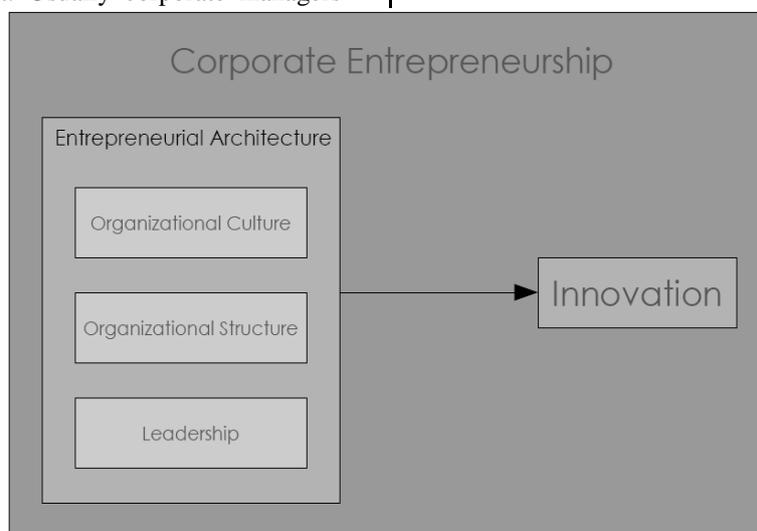


Figure 2: Conceptual Framework

Research Methodologies

Assigned Topic

Based on the task assigned, we were supposed to choose one aspect of corporate entrepreneurship and study that in the chosen company PricewaterhouseCoopers. The two aspects were the study of the effects of environment on change management of the organization and the second topic was to study the entrepreneurial activities in the company and how the management promotes entrepreneurship within PricewaterhouseCoopers. For our research, we primarily selected the second task and conducted our study.

Research Methods

In order to research the assigned task and the selected company, PricewaterhouseCoopers, a detailed study of the assigned literature was conducted, primarily Burn's Corporate Entrepreneurship (2004) and Swedberg's Entrepreneurship (2002) were studied. Analysis of the theories in the mentioned literature helped us in developing tools that would later be applicable in our study of PricewaterhouseCoopers. Apart from the assigned literature, a number of articles, journals and books were also referred to better understand the concepts of corporate entrepreneurship. Other sources of data consulted were the company's press releases available on the PricewaterhouseCoopers website and conducting interviews with key personnel at PricewaterhouseCoopers.

Information Gathering

In order to understand the concepts of corporate entrepreneurship being implemented at PricewaterhouseCoopers, the group conducted a series of interviews with key personnel at PricewaterhouseCoopers offices in the United States and Mexico. The contacts interviewed at PricewaterhouseCoopers were as follows:

1. José Alarcón Irigoyen, Partner Advisory, Systems and Process Assurance, PwC Mexico City, Mexico.
2. Peter Harries, Partner Advisory, Systems and Process Assurance, PwC Phoenix, Arizona, U.S.A.
3. Alfredo Manzano Cuevas, Project Management Specialist, Process Improvement – Change and Program Effectiveness, PwC Mexico City, Mexico.
4. Carlos Carmona, Sr. Consultant, Systems and Process Assurance, PwC Phoenix, Arizona, U.S.A.

An interview guide has been used for this purpose and the interviews were then taken

down following a framework. Other sources of documentation include the PricewaterhouseCoopers websites and online articles. During the summary of the interviews, a selection of relevant and removal of irrelevant material have been done. The secondary data we collected mostly are from Burn's Corporate Entrepreneurship, 2004 and Swedberg's Entrepreneurship, 2002 and academic journals.

Data Analysis

A detailed analysis was conducted by the group in order to identify the relevant literature, both in books as well as on the internet in order to find the tools and concepts that would be applicable to PricewaterhouseCoopers. Based on the literature review, the conceptual framework was developed which was applied to PricewaterhouseCoopers as per the information received through the interviews conducted.

Limitations

In order to find relevant information regarding the entrepreneurial architecture and the environmental changes, the group was able to get a contact for an interview at PricewaterhouseCoopers, Stockholm, Sweden. Consultants being extremely busy are less likely to give time to students for interviews. Unfortunately, the contact we identified was not available for the interview during the given time. Therefore, the group conducted the research based on the interviews conducted by key personnel in Mexico and United States.

In the conclusion, the group has listed the findings based on the questions put forward while linking all the parts in the conceptual framework based on the theory studied and their practical implementation in PricewaterhouseCoopers.

Presentation and Analysis of Findings

PricewaterhouseCoopers: An Introduction

PricewaterhouseCoopers is the world's largest professional services firm. It was formed in 1998 from a merger between Price Waterhouse and Coopers & Lybrand, both having accounting, auditing and professional services history that dates back to mid-nineteenth century. PricewaterhouseCoopers is the largest of the big four auditors with aggregated worldwide reviews of \$20.3 Billion in 2005 and employees over 130,000 in 148 countries across the world (PricewaterhouseCoopers – 2005 Global Annual Review: Revenues).

Big Four Auditors: Competition

The big four is the name given to the four largest international accounting and auditing firms across

the world. In order of revenues in 2012, the big four auditors are as follows (Big Four Auditors – Wikipedia):

1. PricewaterhouseCoopers
2. Deloitte
3. Ernst & Young
4. KPMG

All four of the above mentioned are highly competitive prestigious accounting firms with offices spread worldwide. However, each country has their own regional and local accounting firms as well which operate only on a regional scale. On the other hand, there are some other firms with similar core businesses which are not in the big four auditors. Two of the famous ones among them are as follows:

1. Mckinsey & Company
2. Booz Allen Hamilton

PricewaterhouseCoopers: Consultancy

The firm's core business is auditing, however it had created a large consultancy department in competition with the other companies providing services of similar level. A sharp rise was seen in the Management Consulting Services, later known as PwC consulting in the mid-1990s with the introduction of Enterprise Resource Planning software such as SAP R/3 for multinational organizations. After the Enron scandal, a need was realized to separate the consulting division which was spun-off as a completely independent entity called 'Monday', later taken over by IBM Global services in late 2002. PricewaterhouseCoopers has limited its consulting to advisory services since the acquisition.

PricewaterhouseCoopers: Services

PricewaterhouseCoopers provides a number of industry-focused services for public and private clients in order to build public trust and enhance value through the application of what they call Connected Thinking. A list of the services provided by PricewaterhouseCoopers is as follows (PricewaterhouseCoopers – Services):

Audit and Assurance

1. Actuarial services
2. Assistance on capital market transactions
3. Corporate reporting improvement
4. Financial accounting
5. Financial statement audit
6. Sustainability reporting
7. IFRS reporting
8. Independent controls & systems process assurance
9. Internal audit

10. Regulatory compliance and reporting
11. Sarbanes-Oxley compliance

Crisis Management

1. Business Recovery Services
 2. Dispute Analysis & Investigations
- ##### **Human Resources**
1. International assignments
 2. Reward
 3. HR management
 4. Change and programme effectiveness
 5. Performance Improvement
 6. Governance, risk and compliance
 7. Financial effectiveness
 8. IT effectiveness

Tax

1. International tax structuring
2. EU direct tax
3. Compliance
4. International assignments
5. Mergers & acquisitions
6. Transfer pricing

Transactions

1. Accounting Valuations
2. Advice on Fundraising
3. Bid support and bid defence services
4. Valuation Consulting
5. Commercial and market due diligence
6. Financial and business economics
7. Financial due diligence
8. Independent expert opinions
9. Mergers & acquisitions advisory (buy and sell)
10. Modelling and business planning
11. Post deal services
12. Private equity advisory
13. Project finance
14. Public company advisory
15. Privatisation advice
16. Regulation, competition and merger economics
17. Structuring services
18. Tax Valuations

PricewaterhouseCoopers: Interviews

In order to understand the concepts of corporate entrepreneurship being implemented at PricewaterhouseCoopers, the group conducted a series of interviews with key personnel at PricewaterhouseCoopers offices in the United States and Mexico. The contacts interviewed at PricewaterhouseCoopers were as follows:

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The detailed questions asked led to a number of different facts during our study which led us in understanding how PricewaterhouseCoopers conceptualizes its business situation and how does it encourage entrepreneurship with in the organization etc. The above mentioned are explained in detail while discussing the internal environment and the creation of a particular structure and architecture with in the organization that leads to developing an organizational structure, leadership qualities, innovative strategies etc. which gives us an idea of the entrepreneurial behaviour with in PricewaterhouseCoopers. The group has analyzed the different tools in the conceptualized framework and has implemented them based on the interviews conducted and the answers received.

PricewaterhouseCoopers: Internal Environment

Based on our research, we concluded creation of an entrepreneurial company is primarily influenced by corporate culture and innovation. For this purpose, the study of different sources and the interviews conducted has led us in understanding the importance of an entrepreneurial architecture and its constituents such as culture, structure and leadership and how they influence the development of entrepreneurial activities.

Entrepreneurial Architecture

The architecture of any company is the back bone for creating an environment that leads to corporate entrepreneurship. In our study of PricewaterhouseCoopers's organizational architecture, we will primarily focus on three main points as per Burns, which are the most effective tools for building an internal architecture with in an organization that can lead to entrepreneurial activities. These tools are as follows:

1. Organizational Culture
2. Leadership
3. Structure of the company

Organizational Culture

Being a prestigious organization with subsidiaries spread across the world, PricewaterhouseCoopers claims to particularly take care of the legal, regulatory and moral limits that are supported by its corporate culture. For this purpose, PricewaterhouseCoopers has developed its corporate culture based on a Code of Conduct that set standards for an expected behaviour from any employee with in the organization. Following this Code of Conduct are believed to

be an integral part of the work place environment at PricewaterhouseCoopers worldwide. The code establishes that business must be done within a framework of applicable standards, laws, regulations and internal policies. It provides a frame of reference for PricewaterhouseCoopers firms around the world that can establish more specific supplement to address territorial issues (PricewaterhouseCoopers – Code of Conduct).

This Code of Conduct also include framework for ethical decision-making based on five basic steps which important for the employees to consider when making decisions during a course of action (PricewaterhouseCoopers – Framework for Ethical Decision-making). These steps are as follows:

1. Recognizing the event, decision or issue
2. Thinking before acting
3. Deciding a course of action
4. Testing the decision
5. Proceeding with confidence

Apart from the above mentioned, there are few other ethical decision-making rules practiced at PricewaterhouseCoopers such as; is it against PwC or Professional standards?; is it legal?; will it reflect negatively on you or PwC?; is there and alternative action that does not pose an ethical conflict?; how would it look in the newspapers? etc. (PricewaterhouseCoopers – Framework for Ethical Decision-Making).

Compliance with these codes of conduct is mandatory and given high importance to each PricewaterhouseCoopers subsidiaries worldwide ensuring that PricewaterhouseCoopers staff understands and complies with it. The manner in which these codes are enforced locally can vary from country to country (PricewaterhouseCoopers - Barbara Kipp Interview: Why have a code ?). For example, if a new employee is hired at PricewaterhouseCoopers Mexico, the PwC code of conduct is explained to him / her during the induction process. Also, every year, employees take a CBT training course based on the Code of Conducts which ends with a test. Passing the test is mandatory with the submission of the test certificate to the human resources within given dates. Failing to accomplish this task results in disciplinary actions.

It can be concluded that the organizational culture that is based on morals and ethics which the organization strictly follows is one of the basic points for motivating entrepreneurial behaviour according to Birkinshaw's BP Model.

Structure

Structure is the second important factor

influencing the creation of an entrepreneurial organization. It is of primary concern for large companies that tend to have a very complex organizational structure in order to control all the possible subsidiaries. However, it has been observed that larger corporations are going through the deconstruction phenomenon leading them to breakdown into smaller sub-organizations that replicate the flexibility of smaller firms. Each of these sub-organizations have entrepreneurial management and focus on particular tasks that they are considered competent for, constantly trying to innovate themselves.

As per PricewaterhouseCoopers Partner Peter Harries and Sr. Consultant Carlos Carmona at Systems and Process Assurance division, the firm does not necessarily motivate a decentralizing culture. According to them, "this has to be properly evaluated and in case the business has the necessity, willingness and obviously the means to do so, then it would be properly be addressed to the management" - Peter. They also suggest that decentralization being a good practice or a common situation for some industries, does not necessarily mean it is suitable for all kind of industries. This shows us that PricewaterhouseCoopers still manages a traditional organizational structure with clearly marked hierarchical levels that may lead to possible lack of flexibility that can be seen in smaller firms.

Leadership

As an advisory firm, PricewaterhouseCoopers keeps track of significant market events and trends through its knowledge database repositories. Employees are encouraged to access these knowledge databases for their own development and gaining expertise in order to prepare proposals or to look for the experience gained in other countries. Employees must cover certain yearly mandatory courses and the management keeps track of their performances in the training program. They are also provided with the opportunity to take CBT courses concerning other topics that can help in their personal development.

Managers' training is also considered of high importance at PricewaterhouseCoopers as it is considered a position where entrepreneurial activities are more tangible. Managers are the ones that have to be aware of the environment and new technological advances in order to respond to the needs of the ever-changing market with new and innovative services being introduced on regular basis, as well and knowing the cost and the way to control them.

An example of PricewaterhouseCoopers has created and developed a program called 'Genesis Park', at Washington, D.C, United States. This program is designed to develop a next generation of PricewaterhouseCoopers leaders. As per

PricewaterhouseCoopers management, "Genesis Park is distinguished from other corporate leadership programs by the level of commitment required of its members, the innovative principles which guide its operation, and the kinds of personal and professional benefits the experience imparts" (PricewaterhouseCoopers - Genesis Park).

The participants are high-performing PricewaterhouseCoopers staff from a number of countries and participate in a 5 months residency program that combines the elements of idea generation and business case development; strategic project and thought leadership, team-building, change management and knowledge sharing, preparing them to embrace valuable qualities as leadership, teamwork and intellectual curiosity (PricewaterhouseCoopers - PwC's Leadership Development Program: Genesis Park - Fast Facts).

At PricewaterhouseCoopers, Partner José Alarcón and Manager Alfredo Manzano at the Systems and Process Assurance Division in Mexico, commented that the firm understands the entrepreneurs as, "the people who can open new opportunities of selling through the knowledge of issues in specific industries and the creation of innovative services based on the essence of the structure of the firm"- José. The firm involve its leaders though a rewarding structure, based in productivity metrics. Partners' metrics are compound of all the managers' metrics that are under their direction, so there is no way to cover partner goals without covering managers' goals. The way to evaluate the performance of the managers and partners is the number of opportunities identified for other areas of the firms, for motivating them to be concerned of the complete spectrum of services of the firm.

Innovation

When a company has a entrepreneurial friendly environment, it is easier to motivate innovation within its employees. PricewaterhouseCoopers maintains an architecture that is believed to motivate this behaviour. We have analyzed this phenomenon by focusing mainly in one of the newest PwC lines of services, Advisory. PricewaterhouseCoopers Partner José Alarcón and Manager Alfredo Manzano, both consider that the innovation of services is the essence of the consultant practices as there are no possibilities to grow or compete in the market without offering attractive services. They also point that as an advisory firm, PricewaterhouseCoopers keeps track of significant market changes, events or trends etc., by documenting all in a knowledge database that is accessible to each employee in the organization.

As per Partner Peter Harries and Sr. Consultant Carlos Carmona, "innovation activities are promoted by senior consultants and managers

which due to their daily work identify improvement to diverse client process and then with the assistance of the world's largest professionals network can easily find a wide variety of best practices, innovative ideas, market trends and a vast list of services in leading markets for practically all industries through all markets, once identified is then adapted to the client in terms of scope, local regulations, specific needs and strategies, in order to become a global player” – Carlos Carmona. Innovation is therefore, an important part of the organization, but, it is mainly managed at top levels within the organizational structure. As an employee who is growing within the company, they will have increasing responsibilities in services innovation till a point when it became a part of daily work.

An Alternate Approach

Alternatively, as per the concepts provided by Burns, the architecture comprises of three main elements such as Organizational culture, the organizational structure and the importance of leadership. All three of these elements complement each other and act together in creating an internal environment of the company that influences the motivation of the employees at different levels to innovate in creating new products and services that can benefit the organization. However, in our opinion, changes occurring in the external environment (legal, market, technological), always influence the companies activities. Therefore these ones have developed change management strategies in order to survive and continue growing in the ever changing environment. Change management actions within the firm are the ones that will allow the firm to respond to change in an innovative or non-innovative way, always depending of the kind of environmental change.

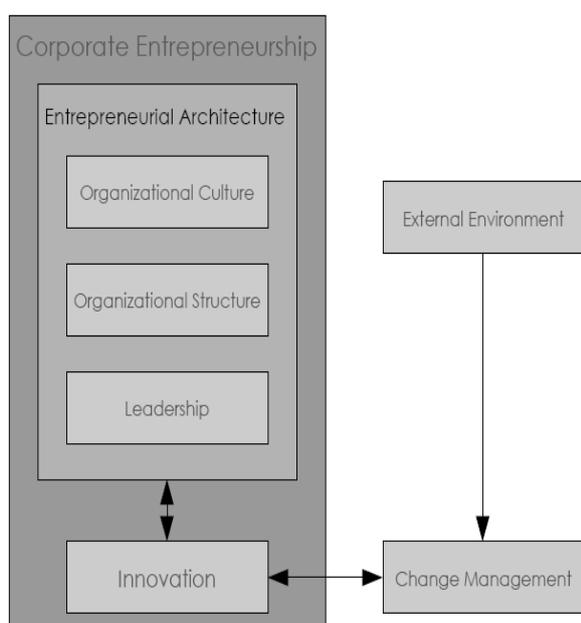


Figure 3: An Alternate Conceptual Framework

Environmental Changes

In our research of PricewaterhouseCoopers, we analyzed the literature and developed tools in the form of a conceptual framework that we would then apply to the company to understand how the company under research has managed to react to the external environmental changes. These external changes may have forced PricewaterhouseCoopers to develop a planned approach changing the way it operates around the world. Change management can be 'reactive', where management responds to changes in the macroenvironment. As per our study, one of the major 'reactive' change that PricewaterhouseCoopers had to encounter in response external environment in May 2002, when its consultancy division was spun-off into an independent entity with a new name introduced to public as 'Monday'. This step was taken by PricewaterhouseCoopers to protect its reputation in the wake of the Enron scandal (BBC Business News: Monday name change for PwC). However, in October 2002, PricewaterhouseCoopers sold its consultancy business to IBM. The main reason for PricewaterhouseCoopers to separate its consultancy division into an independent entity can be seen as a change due to the Sarbanes-Oxley Act of 2002, publicly known as Public Company Accounting Reform and Investor Protection Act of 2002, as well as SOX or Sarbox (PricewaterhouseCoopers – Wikipedia).

Sarbanes-Oxley Act

The corporate financial scandals committed by big corporations as Enron and World Com by incorrect reporting of financial transactions, resulted in extensive losses to stakeholders and a crisis with the investor confidence (Sarbanes-Oxley- Basics). Because of that, US Senator Paul Sarbanes and Congressman Michael G. Oxley, proposed the creation of reforms related with accountability, responsibility and transparency, in order to tighten the regulation of independent auditors and making the company officers as well as auditing firms more responsible of their conduct. Sarbanes-Oxley act (popularly known as Sarbox or SOX) was approved by the US congress on April 2002 (The History of Sarbanes-Oxley). The act mainly protects investors by improving the accuracy and reliability of the corporate financial disclosures.

As per PricewaterhouseCoopers, “Without a doubt, the Sarbanes-Oxley Act is the single most important piece of legislation affecting corporate governance, financial disclosure and the practice of public accounting since the US securities laws of the early 1930s. And, it is clear that public companies and the accounting profession have made tremendous progress in meeting the rigorous requirements of this legislation”, (PricewaterhouseCoopers Online –

Sarbanes Oxley Centre: The Act and Strategies for compliance).

The new standards created by the act have changed the corporate boards and the executives' interaction with each other and with their auditors, specifying new financial responsibilities, including adherence to new internal controls and procedures that must be designed to ensure the validity of the financial statements. Compliance with this law will include an internal control report about the effectiveness of the internal control and the accuracy of the financial information (Sarbanes-Oxley – Basics).

The act applies to all public companies in US and international companies that have registered equity or debt securities with the Securities and Exchange Commission (SEC) and the accounting firms that provide auditing services to them. Compliance with the act is also mandatory for all US subsidiaries. Non compliance could result in penalties that can range from the loss of exchange listing to fines in millions and imprisonment (Sarbanes-Oxley – Basics).

Sarbanes-Oxley and PricewaterhouseCoopers

Not only PricewaterhouseCoopers, but all other auditing and financial consultancy firms were also affected by the implementation of the act. As per our study, the prohibition on audit firms providing extra "value-added" services to their clients including actuarial services, legal and extra services (such as consulting) not related with their audit work etc., has led to a number of auditing firms have either separated their consultancy divisions into spin-offs that would work as independent entities or have sold them to other companies. The reaction of the firms was not independent as the SEC and Public Company Accounting Oversight Board (PCAOB) dictated the rules and the firms that wanted to continue in the market should accept them. This point allow to see that legal changes can produce forced changes into the industry, making all firms to have the same initial response without allowing innovation.

In our study of PricewaterhouseCoopers, we observed a similar behaviour where steps were taken to bring about a change within the organization based on changes in the external environment it was operating in. PricewaterhouseCoopers first separated its consultancy division as an independent spin-off establishing a new brand name 'Monday' in May 2002. However, in October 2002, IBM acquired 'Monday' as the PricewaterhouseCoopers consultancy services company for \$3.9 Billion in cash and stocks (PricewaterhouseCoopers – Wikipedia). The firm operates under IBM global services and business consulting services (IBM Global Services – Legacy Transformation:

Reclaiming the value of critical assets). Since the acquisition took place in late 2002, PricewaterhouseCoopers has limited its consultancy activities as advisory services.

However, these factors produced a change in the way of viewing the auditing activities and the way to implement new consulting services. The main change in the firm's behaviour has been the importance of the Independence role in the services provided. In our interviews conducted, as per PwC/SPA Partner José Alarcón and PwC/SPA Manager Alfredo Manzano, PricewaterhouseCoopers has invested a lot of effort in procedures to assure the independence role of the firm, from punishment to alert calls. One example is the classification of customers in channel 1 and 2, being channel one the auditing customers that can not be assisted without any special permission, whereas clients forming part of channel 2 is allowed to perform any kind of service.

As auditing is a primarily area of focus for PricewaterhouseCoopers, the firm has been limited within the services that can be performed with a lot of its client, however, PricewaterhouseCoopers is focused on innovating new services that can be provided without independence violations. For this purpose, PricewaterhouseCoopers counts on a fixed organizational structure that is well known to its employees and customers, where only proposals signed by partners are recognized by the customer. The partner is then the person responsible to assure that all possible services and innovations within then are given to the correct client without being against local and international laws.

Conclusion

Corporate entrepreneurship is a complex concept that promotes innovation within big companies, though a friendly architecture that can motivate people to be creative to the external and internal environment, in order to compete in the market.

PricewaterhouseCoopers, one of the four biggest auditing firms in the world, is therefore a good example of how a big company with a complex internal structure, takes necessary steps to motivate their employees to create new services based on evolving market trends. PricewaterhouseCoopers has an internal architecture that promotes entrepreneurship mainly because of a corporate culture that promotes the way of doing business within certain moral and legal parameters as well as a well planned leadership program that trains the future managers in being creative, finding new business opportunities and developing innovative services. However, based on our study, we have concluded that PricewaterhouseCoopers has a very strict internal structure, where hierarchical levels are always respected and it is not possible to take action without the support of a superior in the

organizational structure.

On the other hand, while studying the alternate approach, it can be said that PricewaterhouseCoopers reacted to the change in the macroenvironment, innovating by creating a spin-off consultancy firm. In our opinion, such a move on the company's part was highly innovative. As per the interviews conducted as well, it can be observed that the company is now focusing on innovative procedures and services that would be provided to the clients and the company is not in process of new methods of providing services where clients are provided by proposals signed exclusively by the company partners ensuring the

quality services that the company promises. If there is a question of learning process, we believe that learning process initially took place when PricewaterhouseCoopers separated its consultancy division as an independent company. In that case the employees had to go through a process of change for them to get accustomed to the new procedures and routines. In our opinion, the employees would again have to go through the learning process when IBM acquired the PricewaterhouseCoopers spin-off, Monday, as IBM procedures and routines would be completely different from the ones practiced at PricewaterhouseCoopers.

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