

INNOVATION MANAGEMENT IN BUSINESS

**INTRAPRENEURSHIP: RECOMMENDATIONS
ON INTRODUCING THIS MECHANISM IN
LARGE COMPANIES OF UZBEKISTAN**

AZAMAT OTEULIEV

*Banking and Finance Academy,
Republic of Uzbekistan*

JEL CLASSIFICATIONS: O1, O3, M1

KEYWORDS: Intrapreneurship, entrapreneur, intracapital, Uzbekistan, intercompany entrepreneurship

ABSTRACT: Intrapreneurship is considered to be the most suitable mechanism for the efficient management to provide innovation activity and high competitiveness of large companies. This article researches the mechanism of decentralization of large state-owned companies in economically-developed countries as well it provides scientific foundations of the necessity of transition to the intrapreneurship mechanism which includes principles of internal entrepreneurship. In addition, it studies economic results of financing process implemented while operating innovation projects on the example of large companies of Uzbekistan. We have analyzed NPV, IRR, PbP, sensitivity to main risks, difference between scenarios both with project realization and without project realization in oil and gas, energy and mining industries. Moreover, recommendations aimed at successful implementation of intrapreneurship in practice have been developed and possible ways to finance established intercompany entrepreneurship units have been proposed.

<http://dx.doi.org/10.15208/pieb.2015.02>

PIEB, Vol.15 (1), PP.31-40

Source: Oteuliev A., 2015. "Intrapreneurship: Recommendations on introducing this mechanism in large companies of Uzbekistan", Perspectives of Innovations, Economics & Business, Vol.15(1), pp.31-40, <http://dx.doi.org/10.15208/pieb.2015.02>

Introduction

Peter Drucker said that historical success of nations in 80% is determined not by natural resources, not by economic basis or technologies and not even by the talents of the people but by the management efficiency (Drucker, 1974). The reliability of these words is proved by the fact that in current conditions of globalization some companies cannot keep competitiveness with other contestants or cannot overcome negative consequences of the crisis because of the weak and inefficient management of these companies. Therefore, for further improvement of the competitiveness of large state-owned companies in Uzbekistan, the importance of development of modern management mechanisms was noticed by Government of Uzbekistan. It is highlighted the necessity for significant changes of principles and approaches in the management system of large companies, implementation of international management standards in manufacturing and investment processes as the fourth most important direction of the economic programme for 2015 (Karimov, 2015).

Nowadays, established “Funds for Modernization and new technologies” under large companies (according to the Decree of the President of the Republic of Uzbekistan №916 dated July 15, 2008) are not efficiently executing financing of scientific and practical developments and innovation technologies. In the analytical part of the article we checked (a) how much innovation projects in referred companies are efficient; (b) efficiency of the projects financed by the Funds for Modernization and new technologies. With the aim of solving identified problems, we have developed scientific and practical recommendations on promoting ideas in the real sector of the economy, improving processes of innovative production or processes of manufacturing innovative projects as well as implementing the “intrapreneurship” mechanism.

Literature review

Experience of the development of the advanced countries’ illustrates that large companies are not very popular nowadays and in the nearest future it can seem absurd to have a hierarchic management. In future the employment will increase mainly due to the development of small or the largest companies in which the management system assumes division of the company into small and the smallest profit centres aimed at becoming more and more of an entrepreneurship nature (Vissema, 1996).

Indeed, following the activity of companies it is possible to notice that the company which has recently become huge begins to lose its controllability and ability for a qualitative development (Fatkin, 1995). To restore controllability and adaptability of large companies, economists propose a variety of innovative solutions which are united by the idea to develop processes of system self-organization. To achieve this aim it is necessary to refuse centralized governance, formal methods of designing organizational structures and using directive long-term plans. Hayek opposes processes of “natural economic process without orders” to rational planning of the public activities (Hayek, 1989). Sharing this opinion, Ackoff suggests the idea of the governed anarchy (Ackoff, 1999), Peters and Waterman promote competition inside the company and management through creating a situation of continuous creative conflicts (Peters and Waterman, 1982).

Kazuma Tateisi (1989), Lee Yakokka (2007), and Robert Waterman (1990) in their works have written that a flexible structure is needed to revive a company. It is the most important factor of raising competitiveness of the organization. If in business conditions a company turns to be unable to adapt itself to the changes of the environment - in policy, economy, society and technology - it becomes a victim of such changes. Peter Drucker insisted on recommending the principle of decentralization getting rid from a multitier hierarchic structures and applying an entrepreneurial style of management in large companies (Edersheim, 2002).

Summarizing experience of leading companies in the field of managerial innovations economists at last come to the concept of intrapreneurship trying with its help to create an atmosphere of entrepreneurship and creative initiative among employees of companies.

Norman Macrae was the first who mentioned the term “intrapreneurship”. Basing on his analysis he developed a theoretical hypothesis (Macrae, 1976). According to the opinion of Macrae large dynamically developing companies in future should seek for new methods of performing their business through developing competition inside

companies. Moreover, Macrae proposed the idea according to which company employers should not pay wages to the employees only for their attendance. Instead of it employers were recommended to pay wages to the group of people united together to perform complex activities. In 1982 he said that this trend could be successful only in case of intrapreneurs' cooperation (Macrae, 1982). Approximately at that time Gifford Pinchot developed similar concept of interdependence of intrapreneurs in one cooperation (Pinchot, 1985).

Modern economists characterize intrapreneurship as the process and structure. The CIS economists believe that intrapreneurship mean developing a business spirit and its implementation in the appropriate company. Intrapreneurship involves creating innovative business ideas in operating manufacturing company: intracapital is allocated to the creative employee and he is given a comprehensive assistance (Bagiev and Asaul, 2001).

Lapusta in his book wrote that "Essence of the intrapreneurship is that useful models of inventions should be examined in large companies and small companies should be established to implement them" (Lapusta, 2006). Majority American companies consider intrapreneurship to be "the method which can enable organizations to abolish an internal conflict between an integration and necessity for flexibility and innovations" This development concerns large domestic markets and relatively small and independent units. These units are assigned to create and try goods on the internal markets, arrange activities on improving products, implementing innovations, new technologies and methods inside the company (Sinelkov and others, 1994).

Intrapreneurship as a complex economic phenomenon is subject to the influence of various factors which can make both a positive and a negative impact on it. Economic, organizational and managerial factors play the most significant role in the process. In particular, organizational culture of the company is of a great influence. This is proved by Hizrich and Peters (1989) who write "Entrepreneurship spirit should be developed and maintained in the company to provide its renewal and growth".

From the point of several economists, this intrapreneurial organizational culture must be constructed with the application of the following principles: any encouraging and support of new ideas; admitting the fact, that the intrapreneur can be wrong; eliminating sophisticated barriers between units; giving necessary resources to intrapreneurs; encouraging team-work of specialists; developing a voluntary intrapreneurship; deserved award of intrapreneurship for its attempts; availability of a wide intra network of sponsors and protectors encouraging a creative activity and rendering a support in case of failure, including a flexible planning of new assignments and directions; sufficient freedom of the intrapreneur in using and distributing resources allocated; overall support of higher authorities.

An intrapreneur is the main driving force for a successful performance of the intrapreneurship mechanism of the company. An intrapreneur is a businessperson carrying out his activity as an owner of his own firm in the company where he works (Bagiev and Asaul, 2001). His activity is directed to achieve a certain final result. He has an authority to establish groups of employees who share and support his ideas to make them commercialized. Tomilov believes that "in order to perform entrepreneurship activity, an intrapreneur must meet certain social, psychological and professional requirements (Tomilov and others, 1998).

As we can see nowadays there are enough researches in the field of the role of intrapreneurship mechanism in raising innovation activity of the companies. However,

in many developing countries the majority of strategically important companies are state-owned and logically they must be profitable. In particular, opportunities of implementing intrapreneurship mechanisms in large state-owned companies which are widely-used in foreign practice haven't been completely investigated on the example of developing countries. Our hypothesis is that implementation of intrapreneurship mechanism in large state-owned companies while active financing innovation projects will raise economic performance of their activity in the Republic of Uzbekistan. Recommendation part of the article provides proposals to implement intrapreneurship principles in practice.

Methodology

While analyzing economic efficiency of capital placements in innovative projects realized large companies of the Republic of Uzbekistan we have used the data of 3 projects: Project A - project of oil and gas processing where we assume to use innovative compressor machinery to build fields of oil and gas extracting (National holding company "Uzbekneftgas"); Project B - project of electricity energy branch where we are going to use innovative energy equipment to extract electricity energy from gas (State joint-stock company "Uzbekenergo"); Project C - project of mining industry where productivity capacity of the innovative station on extracting coal drill is being modernized (State joint-stock company "Uzbekugol"). These projects have been chosen because they are quite new to be implemented (according to the closing date). With the aim of fulfilling obligations on confidentiality of commercial information of projects and initial data are not to be provided.

While analyzing economic efficiency and reimbursement of investments in innovation projects we are considering data as if on incremental cash flow. We are also making analysis as the difference between 2 scenarios - with project realization and without project realization. We are calculating NPV, IRR and PbP of projects and testing projects' sensitivity to main risks.

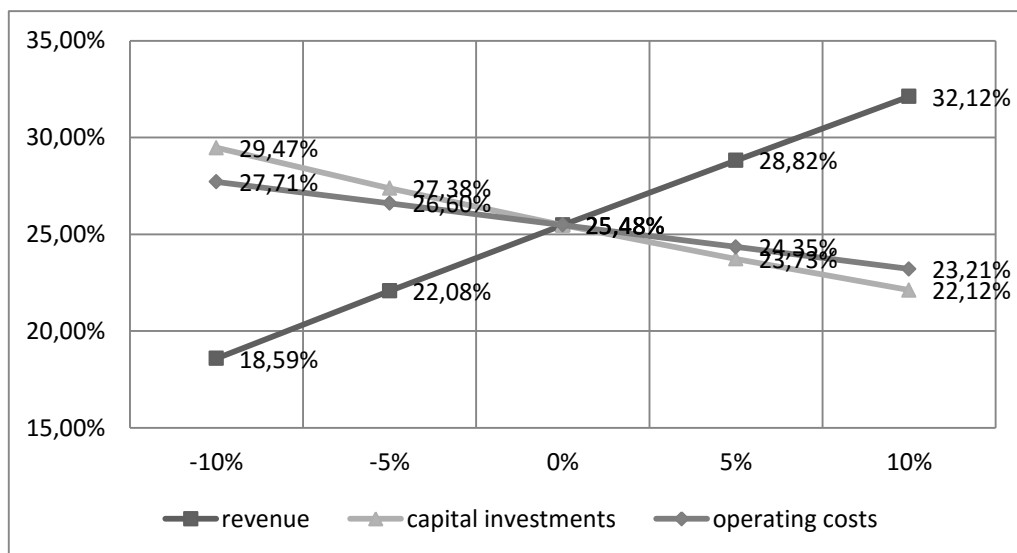
Empirical data used in the analysis are of a secondary nature and provided in million USD. These figures have been obtained from original technical and economic documentation of projects from the library fund of projects at the Ministry of economy of the Republic of Uzbekistan. All relevant data were provided free of charge to conduct a dissertation research. The main condition to provide materials of all projects was not to announce commercial data as well as for official use figures of the projects.

Analysis

The source of financing of "Project A" amounts to 32.849 mln. USD and is covered due to the own funds and the loan of the commercial bank. Economic model of the project has been accomplished on the base of the initial technical and economic information provided in the technological part of the project. While calculating we have taken into account prices for a natural gas realization fixed by the JSC "Uztransgas" for 2013. As the result of the project realization a cash flow made 148.08 mln. USD. Net Present Value (NPV@10%) counted for 44.40 mln. USD (at NPV@8% will make 56.56 mln. USD). A payback period of capital placements will make 5 years. Internal Rate of Return will be 25.48%. Budgetary efficiency, i.e. government income for the project realization period will make 334.18 mln. USD so we can make a conclusion that this project will be unprofitable, if we consider it from the local point of view without gas realization to final consumers.

Sensitivity of “Project A” to main risks is determined with the account of economizing foreign exchange risks and is shown as it follows.

FIGURE 1. SENSITIVITY OF IRR OF “PROJECT A” TO MAIN RISKS



Total value of “Project B” is equal to 678.26 mln. USD and the value of expected tax preferences amounts to 120.21 mln. USD. It is expected that about 5% of placements will be done at the expense of the equity, and the rest amount - at the expense of loans extended by the Fund for reconstruction and development of the Republic of Uzbekistan and Asian Development Bank. If we compare the option "with project realization" and "without project realization", we can see that the option with project realization enables to economize a bigger amount of natural gas. Both production and overall costs on both options are roughly comparable which is justified by a high portion of the depreciation in the total structure of costs, increase of property tax and well as necessity to repay bank interest and commission for conversion. So at "with project realization" the amount of costs for the whole period will reduce to the amount equal to 188.2 mln.USD. Without taking into account realization on depreciation and property tax, 764.8 mln. USD will be economized which completely enables to reimburse production investments without tax preferences and working capital. Net present value (NPV@10%) made 234.047 mln. USD. Internal Rate of Return accounted for 1.64%. Without tariffs escalation the payback period of the project will be 18.9 years due to internal financial flows. Herewith we should take into consideration that current calculations have been made without taking into account tariffs escalation by 8% during the term till 2020, a payback period of the local project will last for 9.5 years. According to the technical data, the realization will enable to get an annual notional economizing of the natural gas in the amount of 485-491 million cubic meters that will bring to the effect of approximately 102.8-104.1 mln. USD. The payback period of the project will be 5.3 years due to the gas economy. According to the integral economic effect the payback period of the project will be 4.1 years since putting it into operation.

Payback period of "Project C" will make 23.8 years with the account of investment period. Internal Rate of Return will make 0.7%. Net Present Value (NPV@10%) is equal to 15.370 million USD.

Whereas "B" and "C" projects don't have enough commercial profitability, expediency of the realization of these innovative projects is justified with gradually increasing needs of the economy and population of the republic of Uzbekistan in electricity energy and coal. These projects are not commercial and their main direction is to provide energy security of the country therefore a forecasted unprofitability can be neglected. Therefore the main advantages of "B" and "C" projects are their strategic importance for the economy of the country and for revival of innovative processes in production.

Recommendations

To implement intrapreneurship in the activity of Uzbekistan companies

Usually, necessity to develop intrapreneurship in companies is resulted from the need to raise competitiveness via implementing an innovation process of the whole company through producing or improving product innovations

The aim of proposals to implement intrapreneurship mechanisms in large companies of the Republic of Uzbekistan is to create a foundation for raising efficiency of using resources by companies, rapid adaptation to market changes, urgent implementation of innovations and further development of manufacturing. In order to develop an intrapreneurship in operating companies it is necessary to provide opportunities to encourage spirit and entrepreneurship activity. First of all, it is advisable to raise the interest of top-level management for developing entrepreneurship because it is impossible to create favourable conditions for entrepreneurship development and change business-ethics without attracting management of the company in this process.

After making any decision and confirming it, management of the company must make all-level employees get acquainted to it. It is done with the aim of testing and approving this decision. Moreover, it is recommended to organize various seminars for employees to study corporate culture, proposals for developing new intrapreneurship units as well as further development of new ways and principles of the intrapreneurship in large companies.

Having determined preliminary regulations and responsibilities and working conditions of employees in a new intrapreneurship unit established within an operating company, an intrapreneur can face the following problems: Who can be him? Who can be suitable for a certain position? What kind of advantages he may be given? What preparation must he undertake? This preparatory process can involve mobilization of the resources inside the company, viable areas of the activity and sources for products consumption which assumes development of the appropriate business-plan.

It is necessary to take into consideration that the intrapreneur needs particular information besides the information used by employees in the framework of the ordinary business. First of all, the intrapreneur analyzes unsatisfied. Thereby he accepts the problem as an unsatisfied necessity, independently chooses the problem which must be solved and tries to settle it. Second, in the process of creating innovations the intrapreneur needs a specific information facilitating creation of this innovation. Third, in the process of creating innovations it is necessary to organize the process of transforming this idea into a commercial product, i.e. to fulfill

organizational function requiring another information base for establishing and managing a new businesses and people involved in it.

For selecting perspective ideas and determining main directions of the activity which can be supported by the management as well as implementing preliminary stages of the innovative activity require determination of the venture capital. In addition, it is necessary to demonstrate results and aims expected from the established innovation companies. These indicators involve the volume of production, terms and profitability so they must be precise from the point of view of their impact on the company.

To implement intrapreneurship mechanism in large companies efficiently we offer to follow precise regulations in practice:

- 1) Entrepreneurship units must have a precise, clear aim which enables them to focus on determined in advance market segments and prevent competition with one another. At the same time it will not create any obstacles for an active competition with companies-rivals. Besides, the company will be represented as a "single team" when it has a competitive, convincing and concrete strategic plan.
- 2) There shouldn't be intermediary levels between units and a higher authority. The system of managing units is based on contract relations between economic units and management and it can be broken down if contract relations are terminated. Direct contact enable to establish short networks of intercompany communication and enable the governing authorities to work directly with units which facilitates rapid decision-making.
- 3) Productive units must have the necessary freedom of contract. The main terms and conditions of contracts concluded with consumers (which are served by several departments) will be drawn up by the economic units. Contractual freedom is used, primarily, for the procurement and sale of goods, i.e, it is necessary for external contracts. In the second place, contractual freedom is necessary for the establishment of relations with the security services of the enterprise.
- 4) Such important functions as marketing, production of goods and their development should be carried out divisions as long as physically possible or if there are no significant losses in synergy.
- 5) The same is applied to the functions of the software related to logistics and quality control, and administrative management functions. Thus, the management system and the system of remuneration will always need regulations provided by the center, but their implementation should be decentralized
- 6) Departments are to have a real voice in the appointment of managers and to exercise an overall control over those who hold other positions in the division.
- 7) An enterprise must have a real strategic management system, i.e, not only to apply the methods of operational planning, but also to adhere to the solid policy in the strategic management.
- 8) The company should have a properly-designed management information system, which assumes maintenance of Profit and loss accounts in each division and staff of accountants in subdivisions able to interpret these numbers. Such information management system should also create conditions for the exercise of supervision by the senior management.
- 9) The synergy effect can be achieved by promoting "comprehensive" style of management, which should be characteristic of the senior management, as well as through the creation of an entrepreneurial spirit in the divisions. The emphasis and the contact between management and the departments should be on strategic issues, and all of that requires a well-developed corporate culture.

- 10) There should be a system of governance that continues to function even when there are conflicts between divisions themselves and between divisions and the central office of the enterprise
- 11) The availability of resources in the right quantity and quality is also a feature of managing an intrapreneurship unit. An intrapreneur is considered to be a special resource.

All of these rules of implementing intrapreneurship assume that management of units should represent radical process: there shouldn't be any partial solutions, only decisive power delegation is possible in spite of attempts to do everything in a centralized form. There should be no deviation in the activity, management also needs to have a clear, definite position towards independent units.

To finance intrapreneurship units in large companies

One of the main aspects of economic relations in conditions of intercompany entrepreneurship in the company is financing of its intrapreneurship units by the company. The system of the intercompany entrepreneurship is a set of intraorganizational forms of redistributing financial resources of the centralized activity of the company among its intrapreneurship units designed to provide their formation, growth and development (Tarasov, 2001).

Necessity in financing appears at formulating own fixed assets and current assets. For example, it is needed to make comprehensive and long-term commercial researches requiring additional current expenses.

Depending on current aims and objectives of the company development the following methods of financing can be used:

- Grant funding;
- Financing on payback or credit bases;
- Financing only at the expense of the intrapreneurship unit itself.

Grant funding should be used at the stage of the launch and initial funding of intercompany entrepreneurship in the company, in conditions when units have the disadvantage of working capital, or, in financing of commercial researches which are very important for the development of the organization as a whole. The essence of this method is that a certain portion of the total volume of centralized funds is transferred to the organization unit in order to realize some arranged work. There is no reimbursement of funds upon completion of work.

Funding on payback basis is applicable at the stage of development of intercompany entrepreneurship in organizations. While using this method, a part of the centralized funds of the company is directed to its unit. As a result of the implementation of certain projects, the amount of money refunded units. The main objective of financing on payback basis is to ensure the growth of commercial works done by units. For example, they can be development of new markets, expansion of the commercial customers, increasing production capacity.

Financing on the credit basis assumes that the volume of centralized funds allocated for the purpose of intrapreneurship units as a result of the implementation of not only non-refundable, but additional payment established by the relevant departments of the company (similar to a credit system applied in the banking business). The purpose of financing on credit basis is the formation of intra-competitive business environment, to provide reimbursement of intercompany investments and the efficient use of company resources. The source of financing of intercompany units may be not only the main company but also the same type unit. In this case, a

division-lender has the right to set his own value of the payment sum regulated only by the Statements of intrapreneurship accepted in the company.

Financing only at the expense of the intrapreneurship unit itself is advisable to use in conditions where units have insufficient working capital and a positive reputation for the company's external customers. Entrepreneur unit may, under favorable conditions, first move to self-financing, and in future to be set as a separate legal entity.

All above-mentioned methods of intercompany financing are recommended for practical application. While selecting the method we should take into consideration as current aims of the company as well as long-term aims. In case of the certain company financing can have a mixed character

Conclusion

On the results of the literature review on the main ideas proposed by leading economists in the sphere of the corporate governance in large companies we can make a conclusion that in conditions of the economy development the only right way to transition from the centralized hierarchic, traditional method to the decentralized, innovation-oriented competitive way to manage large companies is the intrapreneurship mechanism. Results of empirical analysis of indicators of innovation projects implemented in large companies of Uzbekistan illustrate that the projects of the innovative character are not profitable from the economic point of view because they are strategically important for the government. The reason for it is the absence of internal competition in executing these projects, absence of the mechanism of supporting innovative creative activities of employees inside the company. The main advantage for the company putting into operation the intrapreneurship mechanism is activation of innovative processes inside the company, encouraging innovative ideas of employees, proposals and searching new solutions in manufacturing process, experiments irrespective to the type of the main activity. Taking into account the development stage of intrapreneurship unit, possible methods of financing can be on the grant basis or on the credit basis as well as at the expense of the unit itself if it possesses enough turnover capital.

However, the article lacks analysis to study possibilities to obtain better or worse results while implementing intrapreneurship method simultaneously with using simulation method in the process of assessing economic efficiency of the innovative projects. In further researches it is advisable to use cost-benefit analysis methodology to evaluate the long-term impact of implementing intrapreneurship mechanism in large strategically-important companies on the company's profitability in the countries with developing economy.

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