Professional Associations and Barriers to Intrapreneurship and Entrepreneurship

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ABSTRACT

This paper focuses on an entrepreneur in the Alaskan marine piloting industry who wanted to make changes to meet changing needs in the market, but faced obstacles from entrenched industry participants with established relationships with a powerful state-sanctioned board. This paper illustrates how professional associations working with and through the government can inhibit individual members from being innovative. This paper also reviews the literature pertinent to entrepreneurship and intrapreneurship. This should be of interest to those interested in the impact of organizational and other barriers to
entrepreneurial activity, as well as those interested in the marine piloting industry.

**Keywords:** entrepreneurship, intrapreneurship, marine piloting industry

**INTRODUCTION**

While the benefits of innovative behavior for established organizations are well documented in the literature, it is paradoxical that many organizations by their very existence have inherent barriers to innovation (Manimala, et al., 2006). Such barriers become stronger and even more pervasive as organizations successfully grow and become larger. These organizations do not have the flexibility in their culture and operating systems to provide the rewards of personal autonomy and wealth which individuals look for (Morse, 1986). In fact, organizational barriers and constraints against innovative behavior can be significant and create a culture hindering, if not preventing, intrapreneurial ventures (McDermott, 2004). While research confirms that the business environment in countries throughout the world abounds with barriers to entrepreneurship, research is lacking in addressing bureaucratic regulations that impact entrepreneurial activity (Klapper, et al., 2004).

This paper illustrates how professional associations/organizations working with the government incorporate a variety of systems and procedures which can inhibit individual members from engaging in innovativeness. In other words, by their very nature, these associations can impose constraints which conflict directly with the entrepreneurial spirit inherent in the associations’ members.
The Alaskan marine piloting industry consists predominantly of licensed pilots who function as independent business entities. These entrepreneurs obtain work through state-sanctioned pilot membership associations. The independent members and their piloting association, who must mutually agree to accept and train new members, control entry into the industry. Furthermore, the marine piloting associations set rates, control assets, dispatch jobs, perform billing functions, collect fees, and distribute income to their members. The tactics used by these associations in implementing the above functions directly impact and limit competition in the marine piloting industry. Hence, while these associations span the boundary between the free market and governmental organizations, such self-imposed constraints conflict directly with any member’s entrepreneurial efforts which may be desirable in a changing environment. In many ways, the professional associations found in the marine industry resemble a closed-shop union.

This paper reviews literature pertinent to entrepreneurship and intrapreneurship and its importance to both corporate performance and society. It illustrates how ongoing business entities that begin as new ventures by highly motivated entrepreneurs become restricted by regulations generated and policed by their professional associations. Consequently, individual entrepreneurship is stifled.

The Alaskan marine piloting industry is an example of how a professional association, in conjunction with governmental entities, created bureaucratic barriers and provided self-serving associations positions of power over independent members. The paper describes a particular incident of an entrepreneurial-minded marine pilot seeking improvements in Alaska’s shipping industry. The difficulties and barriers imposed by the marine piloting associations are discussed. As
a result of the associations’ intrapreneurial barriers, the premier industry associations were weakened.

LITERATURE REVIEW

The Intrapreneurship Concept
A consensus definition for entrepreneurship has evolved defining the concept as the activities and related processes involved identifying opportunities that create value through innovation and operationalizing the opportunity (Churchill, 1992, p. 586). From the onset of the research on entrepreneurship within existing organizations, a variety of terms have been utilized to address the concept. For example, in the mid-1980s, Pinchot (1985) coined the term intrapreneuring. Other terms such as corporate entrepreneurship (Burgelman, 1983; Vesper, 1984; Guth and Ginsberg, 1990; Hornsby et al., 1993; Stopford and Baden-Fuller, 1994), corporate venturing (MacMillan, 1986; Vesper, 1990) and corporate entrepreneurship (Schollhammer, 1981, 1982; Jones and Butler, 1992) have been used to describe the entrepreneurial activities within an established organization.

Vesper (1990) refers to intrapreneurship as individuals inside an organization undertaking new activities while departing from the customary to explore and develop new opportunities. Stephenson and Jarillo (1990) suggested that individuals engaged in the process often pursue opportunities without consideration of the resources (human and capital) under their immediate control. According to Antoncic and Hisrich (2001), it is a process inside an existing organization that leads to new business ventures as well as innovative activities and marketing orientations within the organization. This process leads to new product and service development, administrative techniques, marketing strategies, and competitive postures.
Intrapreneurship and Economic Development

Since the early 1980s, academic researchers and business practitioners have emphasized that intrapreneurship is essential for both organizational growth and macroeconomic development. Specifically, these researchers and practitioners have documented the beneficial effects of intrapreneurship on the revitalization, innovation, productivity, profitability and overall performance of organizations in established economies. Additionally, intrapreneurship benefits not only the individual organization but other entities both within and outside a given industry (Schollhammer, 1981, 1982; Burgelman, 1983, 1985; Kanter, 1984; Pinchot, 1985; Rule and Irvin, 1988; McKinney and McKinney, 1989; Guth and Ginsberg, 1990; Zahra, 1991; Antoncic and Hisrich, 2003, 2004; Kemelgor, 2002; Batten, 2002; Goosen, et al., 2002; Thomson and McNamara, 2001; Kuratko, et al., 2001; Zahra and Garvis, 2000; Barrett, et al., 2000; Manimala, Jose and Thomas, 2006).

While organizational behavior has been studied in a variety of cultures and cross-cultural settings (e.g., Early and Singh, 1995), multi-cultural and cross-cultural entrepreneurship research is lacking (Hills and LaForge, 1992; Antoncic and Hisrich, 2001). Noting that in many countries there has been a shift from socialism to market-based systems, Hills and LaForge (1992) emphasized the importance of conducting entrepreneurship research in a variety of international settings. The United States has been a market-based economy in one of the most entrepreneurial countries in the world with a long history of entrepreneurship activity and research. However, there are still private sectors of the economy that have not been guided by a free market philosophy (Antoncic and Hirsch, 2001). These sectors have various barriers that limit, if not prohibit, a variety of activities that would not only increase competition but also provide greater customer satisfaction.
Barriers to Entrepreneurship and Intrapreneurship
While the importance of innovative behavior for established organizations has been recognized and well-documented, there is a propensity for established organizations to maintain the status quo despite significant changes taking place in their business environments. This is especially true for well-entrenched, larger organizations (Manimala, et al., 2006; Romanelli, 1987). Manimala, et al., point out that researchers have identified numerous instances where organizations have blocked innovation and intrapreneurship and this eventually led to their collapse. Morse (1986) notes that well-established organizations do not have the flexibility in their internal systems to provide the rewards of personal autonomy and wealth which entrepreneurial individuals strive for. McDermott and O'Connor (2002) note that it is extremely difficult to gather support within an established organization for radical innovations as the internal culture and organizational reward systems support low risk behavior. Further, established organizations may have a short-term financial orientation that has a negative impact on innovation (Hoskisson, et al., 1993). Antoncic and Hisrich (2000) note that the intrapreneurship scenario is even worse for developing and/or transition economies, and Sadler (2002) also identifies the lack of innovations and intrapreneurship in public sector organizations.

Antecedents of Intrapreneurship
Previous research has identified two key antecedents regarding organizational intrapreneurship. One refers to the intra-organizational environment which includes such factors as degree of open communications, formal control mechanisms, industry environmental scanning intensity, degree of organizational and management support, and organizational values (e.g., Antoncic and Hisrich, 2001). The other key antecedent refers to such external environmental factors as the degree of stability and the rate of change.
in the marketplace and industry (Miller, 1983; Khandwalla, 1987; Covin and Slevin, 1991; Zahra, 1991, 1993; Badguerahanian and Abetti, 1995; Antoncic and Hisrich, 2001). Covin and Slevin (1989, 1981) also address the issue of environmental hostility (i.e., unfavorable environmental conditions and its relationship to an organization’s entrepreneurial posture). According to Zahra (1991), a high degree of environmental hostility generates threats for the organization that in turn stimulates intrapreneurship. Two key hostile environmental factors identified by researchers are unfavorability of change and competitive rivalry (Zahra, 1993).

THE MARINE PILOTING INDUSTRY

Marine pilots are federally and state-licensed to navigate and dock ships in coastal waters. Pilotage in the United States operates under a dual licensing system. In 1789, Congress passed a statute specifying that states have control over the piloting of foreign vessels entering American ports and in 1871, Congress enacted other legislation specifying that the federal government has control over U.S. vessels operating in American ports. Licensed pilots are compulsory for certain size ships under both federal and state laws. The industry operates under an umbrella of state and federal agencies that deal with licensing, tariffs, identifying pilotage waters, and classifying ships for which the compulsory requirements apply. State and federal regulatory agencies generally have heavy pilot representation.

Associations of marine pilots generally have exclusive areas, ports, harbors and rivers in which they operate. Pilots generally function through bureaucratic associations that serve as central dispatch and billing/collection entities. The individual pilots do the work as independent contractors but pool their income and expenses through their associations. Pilotage tariffs are generally based upon a cost flow-
through scheme. Ships are charged for association overhead, reimbursement for direct costs, plus an allowance for the pilot’s income. The charge, or tariff, is set by the state piloting board. Piloting is taught through apprentice type training. The trainee works under a licensed pilot resulting in a high degree of control by entrenched pilots who personally select whom they will take on as apprentices. Pilot associations have the discretion to provide advance money to apprentices during the training period.

The association form of industry control in the Alaskan piloting industry requires that members approve all changes in bylaws and operating rules. Since approximately 1/3 of the pilots are off at any time, this results in a voting process that is slow and not conducive to change. Enthusiasm for new thinking or solutions by junior pilots is restricted by the voting rules of the Associations that effectively give junior pilots no voice in Association matters. After trainees have been approved for membership, at least in Alaska, they need to buy into the association’s assets. It is not uncommon to have new members on a reduced share (e.g., 50% or 75%). All new members share the pooled income based on this percentage until the new member has total license coverage for both ports and sizes and types of ships. This creates a two-tier level of membership with only full share members allowed to vote on Association matters. In Alaska, pilots earn above-average incomes with many earning more than $200,000 per year. When pilots are on duty (available for dispatch), it is a 24-hour commitment. Consequently, pilots work on/off in blocks of time and may be on duty for two months and then off duty for a month.

THE ALASKA MARINE PILOTING SITUATION

Alaska has more coastline than the rest of the United States. Physically separated from what is referred to as ‘the lower 48’ by
Canada, it was a territory of the United States until 1959 when it became the 49th state. Its economy was then, and is now, based largely on federal spending and resource extraction. It does not have a large population: in 1960, according to the United States Census, there were 226,000 residents. In 1980, the population increased to a little over 400,000 and by 1990, it was between 500,000 and 600,000. By 2000, the population was approximately 630,000 (U.S. Census Bureau).

The organization of the Alaskan marine pilot industry was patterned after other states. The State of Alaska created the Alaska Board of Marine Pilots (the board) which consists of two licensed marine pilots, two registered agents or managers of vessels which are required to use marine pilots, two public members, and either the commissioner or the commissioner’s designee. This group of seven people is charged with recognizing pilot organizations formed within geographic regions established by the board. Regional pilot organizations provide for the timely dispatch of marine pilots and set rates for the provision of services. The board must approve rate changes, and pilot organizations may not deviate from them (Alaska Statute Title 08, Chapter 62).

Prior to the instance discussed here, there were two piloting associations in the state: the Southeast Alaska Pilots Association which was headquartered in Ketchikan and was responsible for providing services in Southeast Alaska, and the Southwest Pilots Association which was headquartered in Homer and provided piloting service from Prince William Sound out to the Aleutians. In the late 1980s three major changes were occurring in Alaska. First, the tour ship industry was expanding considerably. Second, the fishing industry was shifting from exclusively summer salmon fishing to year-round bottom fishing in the Aleutian Islands area. Third, there was a move from onshore salmon canning to on-ship processing, and these on-ship processing plants required licensed pilots. This resulted in a rapidly growing demand for licensed pilots, and organizational changes were
needed to better accommodate the market and pilots. In order to cope with the increased demand, piloting costs were skyrocketing for ships. To illustrate, if there was a need for a pilot in the Aleutian Islands, it was generally necessary to send someone from another area. Rather than flying scheduled airlines, a plane was chartered to expedite the pilot’s travel. The higher cost of chartering was of no concern to the pilots since the charges were borne by the shipping company. In some cases, a $5,000 or $6,000 charter was required for a $417 pilot fee.

The changing environment created many opportunities for industry growth, higher industry income, and a need to better accommodate customer needs. However, the pilots’ associations were doing little to accommodate these changes. In fact, the Aleutian Islands area received less attention as members of the Southwest Alaska Pilots Association focused on the growing Prince William Sound tour industry. An entrepreneurial-minded junior pilot member from the Southwest Piloting Association developed and suggested several specific strategies to address problems and opportunities. He recommended developing resident locations in five existing ports, with Dutch Harbor being a key port. This would allow pilots to live in the resident areas and have a better home life, reduce travel time, slash the considerable financial costs associated with the travel, and facilitate the development of greater local knowledge and expertise as pilots worked in smaller geographical regions.

The entrepreneur/junior pilot was interested in heading up the plan, recruiting and training new pilots who would do the work for less and provide a pilot pool from which the best pilots would begin training on the larger ships. Additionally, the pilot would keep available a pool of adequate pilots to service the increasing numbers of tour ships as well as the most profitable tanker traffic. Consequently, younger pilots would also have more opportunities to work and earn a substantial
income. This individual believed all parties would benefit in a win-win situation, including members of the established associations. Significantly, all billing and collection activities would still be conducted at the association level.

Unfortunately, members of the Southwest Pilots Association did not view his recommendations favorably, and therefore did not support the proposal. The largest shipping agent in the state, however, heard of the proposed plan and approached the entrepreneurial individual and suggested a joint effort in order to make the new plan operational. Shipping agents were hired by shippers to arrange for piloting services, reprovisioning ships, and arranging other needed products and services. The entrepreneur located two other licensed individuals in Homer that were qualified pilots and formed the Alaska Marine Pilots Association, which eventually gained recognition by the Alaska Board of Marine Pilots. Setting up shop in Dutch Harbor, Alaska, the group provided better services at a lower cost to ports west of Kodiak Island through the Alaska Peninsula and Aleutian Islands.

The Southwest Alaska Pilots Association perceived the new pilots to be competitors as opposed to colleagues and acted swiftly and negatively. Upon hearing rumors regarding the formation of the new group, training for those in the trainee stage was suspended. Purportedly, the established organizations started a whisper campaign to the effect that pilots in the new group were not qualified, or were second-rate. It was also rumored that established association meetings were almost exclusively devoted to discussing how to discredit or "get at" the new organization. Furthermore, it was common knowledge that licensing procedures were administered in a biased way at the state regulatory board level where the traditional associations were represented. The examiners who were members of the established associations delayed processing licenses for members of the new group.
Other actions were undertaken by the established organizations to curb the growth of the new organization. Efforts were made to get state statutes changed to restrict the waters that the new association could service. Attempts were made at the legislative level to incorporate new regulations and incorporate bureaucratic procedures that would make any operational or regulatory changes cumbersome. In addition, attempts were also made to lengthen the training requirements in a way that would impede the licensing of new pilots and the formation of new associations. New income pooling rules were approved by the established associations that effectively reduced the income its new members could earn during their early years as pilots, and increased the income of the older members. Finally, the Southwest Pilots Association spent several hundred thousand dollars on new facilities in Dutch Harbor. This allowed them to argue before the Alaska Board of Marine Pilots that they should be able to coexist in the Aleutians.

In spite of the actions of the established associations, other shipping agents joined the new group, and within two years the new association had doubled in size and had 90% of the piloting business in the Aleutian area. Most of the pilots and the new group had tonnage restrictions on their licenses and therefore could not service the occasional large ship. Thus, the established associations kept a token presence in the area. Within three years, the new association was doing $1.5 million in business. Its membership had grown to twelve and had the support of most, if not all, industry agents. This allowed them to better meet the demand in the region. In this situation, an opportunity for the traditional marine pilot associations was lost. Instead of seeing an opportunity for all involved, the established bureaucratic associations spent time energy and money building barriers instead of encouraging the entrepreneurial spirit of one of its members. One consequence of efforts to stymie the development of new piloting organizations was to increase the visibility and therefore
scrutiny of the very profitable marine piloting industry. Some observers believe that the turmoil hurt the image of marine pilots.

**DISCUSSION**

The structure of the marine piloting system means that pure entrepreneurship is blocked, since the creation of new piloting associations needs the approval of the Alaska Board of Marine Pilots. It is not possible for an independent entrepreneur, even a licensed one, to simply develop an organization to provide needed services. The fact that shippers are required to hire marine pilots through board-approved associations essentially creates a functional monopoly which can, and did, result in an indifference to changing customer service requirements; after all, the service is compulsory and alternative sources of service are prohibited from meeting those needs. Cost concerns of industry customers can be safely ignored because tariffs are based upon the cost flow-through method described earlier and reimbursement of out-of-pocket costs. There are two significant aspects to this: First, the discipline imposed by a free market cannot efficiently function, and second, significant changes have to be made by an intrapreneur, that is, by someone who can work within a controlling organizational system.

In this particular instance, given the lack of incentives on the part of existing pilots and their associations, intrapreneurial actions generated hostility and counterproductive behavior. The intra-industry environment was not conducive to innovative behavior. Further, the cumbersome administrative/bureaucratic organization and rules meant that innovations had to be approved by a board occupied by some hostile members. It is a credit to the innovators that they were able to persevere and follow through on the changes.
Who won and who lost in this instance? First, the innovators were successful, but clearly more resources and time were required to make the needed changes than would have been the case had the existing piloting association been supportive. The lag between the emergence of the need and the introduction of the new association also cost shippers. Finally, the existing association lost members and geographical coverage and spent considerable financial and time resources in fighting the needed change. Another negative consequence was that the battle raised awareness of politicians and others about the existence of this lucrative, low-risk industry, and undoubtedly cost the existing piloting organizations political capital. Clearly, then, the bureaucratic barriers cost all participants.

CONCLUSION

Entrepreneurial and intrapreneurial actions are the means by which industries adapt to meet changing demands in the marketplace. Where governmental controls exist through laws, regulations, and government-approved regulatory bodies, there exists the likelihood that needed changes can be blocked or delayed. The Alaska marine piloting case illustrates how all parties can be detrimentally affected. This case supports previous literature describing regulations and bureaucratic organizations that protect private interest of entrenched industry leaders. In other words, both governmental regulations and bureaucratic regulations do affect the entrepreneurial spirit and process in an established industry. Both the literature and this case suggests that there is a real danger in that associations of entrenched members can generate new barriers, in some cases with the government’s inadvertent support, which can delay or kill entrepreneurial efforts.
REFERENCES


