

Entrepreneurship

Strategic Growth In Entrepreneurship

The Nature of Planning in Emerging Firms

- Most entrepreneurs' planning for their ventures is informal and unsystematic.
- The need for formal, systematic planning arises when:
 - The firm is expanding with constantly increasing personnel size and market operations
 - A high degree of uncertainty exists
 - There is strong competition
 - There is a lack of adequate experience, either technological or business

Strategic Planning

- Strategic Planning
 - The formulation of long-range plans for the effective management of environmental opportunities and threats in light of a venture's strengths and weaknesses.
 - Includes:
 - Defining the venture's mission
 - Specifying achievable objectives
 - Developing strategies
 - Setting policy guidelines



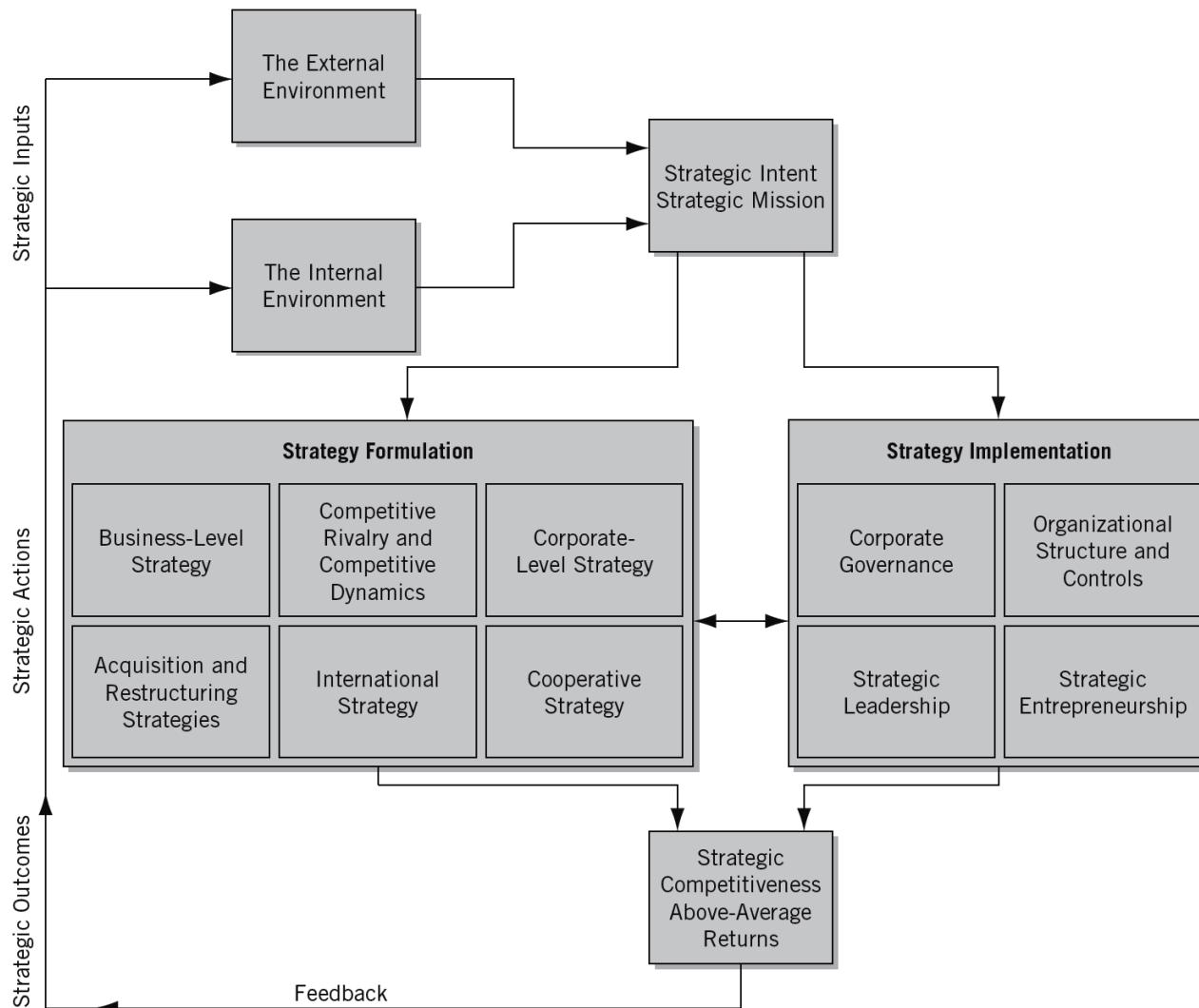
Strategic Planning (cont'd)

- Basic Steps in Strategic Planning:
 1. Examine the internal and external environments of the venture (strengths, weaknesses, opportunities, threats).
 2. Formulate the venture's long-range and short-range strategies (mission, objectives, strategies, policies).
 3. Implement the strategic plan (programs, budgets, procedures).
 4. Evaluate the performance of the strategy.
 5. Take follow-up action through continuous feedback.

Figure

13.1

The Strategic Management Process



Source: Michael A. Hitt, R. Duane Ireland, and Robert E. Hoskisson, *Strategic Management: Competitiveness & Globalization*, 8th ed. (Mason, OH: South-Western Publishing, 2009), 5. Reprinted with permission of South-Western, a division of Thomson Learning: www.thomsonrights.com.

Key Dimensions Influencing a Firm's Strategic Planning Activities

- Demand on strategic managers' time
- Decision-making speed
- Problems of internal politics
- Environmental uncertainty
- The entrepreneur's vision
 - *Step 1: Commitment to an open planning process.*
 - *Step 2: Accountability to a corporate conscience.*
 - *Step 3: Establishment of a pattern of subordinate participation in the development of the strategic plan.*

The Lack of Strategic Planning

- Reasons for the Lack of Strategic Planning

1. Time scarcity
2. Lack of knowledge
3. Lack of expertise/skills
4. Lack of trust and openness
5. Perception of high cost



The Value of Strategic Planning

- Findings of Strategic Planning Studies
 - Strategic planning is of value to a venture and that planning influences a venture's survival.
- Benefits of Long-Range Planning
 - Cost savings
 - More efficient resource allocation
 - Improved competitive position
 - More timely information
 - More accurate forecasts
 - Reduced feelings of uncertainty
 - Faster decision making
 - Fewer cash-flow problems

Strategic Planning Levels (cont'd)

- Strategic Planning Categories (Rue and Ibrahim)
 - Category I: No written plan
 - Category II: Moderately sophisticated planning
 - Category III: Sophisticated planning
 - Results: More than 88% of firms with Category II or III planning performed at or above the industry average compared with only 40% of firms with Category I planning.
- All research indicates:
 - Firms that engage in strategic planning are more effective than those that do not.
 - The planning process, rather than merely the plans, is a key to successful performance.

Fatal Visions in Strategic Planning

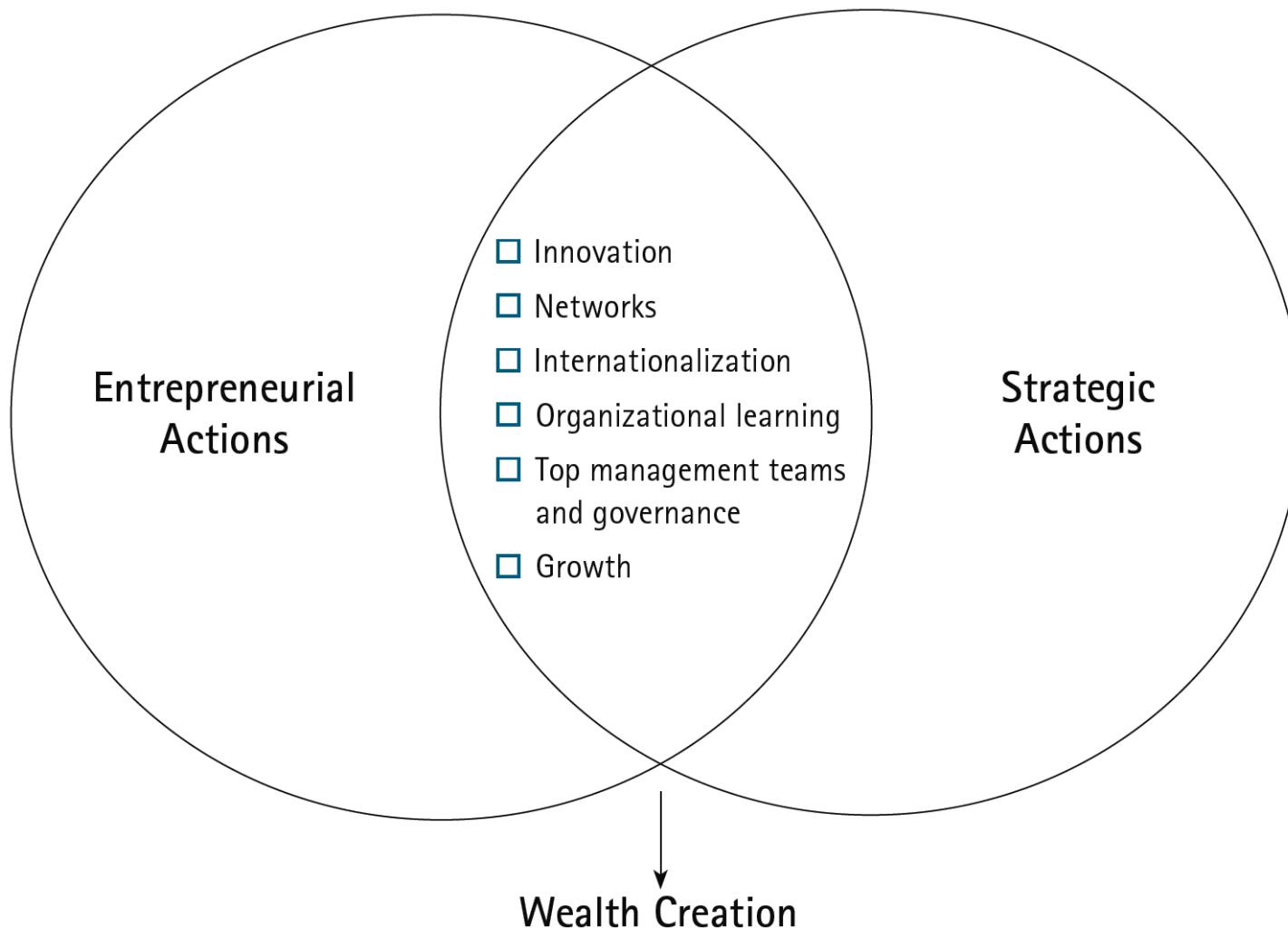
- Fatal mistakes that entrepreneurs fall prey to in their attempt to implement a strategy:
 - Fatal Vision #1: Misunderstanding industry attractiveness
 - Fatal Vision #2: No real competitive advantage
 - Fatal Vision #3: Pursuing an unattainable competitive position
 - Fatal Vision #4: Compromising strategy for growth
 - Fatal Vision #5: Failure to explicitly communicate the venture's strategy to employees

Creates unity; consistency of action; all depts work towards same goal

Figure

13.2

The Integration of Entrepreneurial and Strategic Actions



Source: R. Duane Ireland, Michael A. Hitt, S. Michael Camp, and Donald L. Sexton, "Integrating Entrepreneurship and Strategic Management Actions to Create Firm Wealth," *Academy of Management Executive* 15(1) (February 2001): 51.

Strategic Positioning: The Entrepreneurial Edge

- Strategic Positions
 - Are often not obvious, and finding them requires creativity and insight.
 - Are unique positions that have been available but simply overlooked by established competitors.
 - Can help entrepreneurial ventures prosper by occupying a position that a competitor once held but has ceded through years of imitation and straddling.

Table

13.1

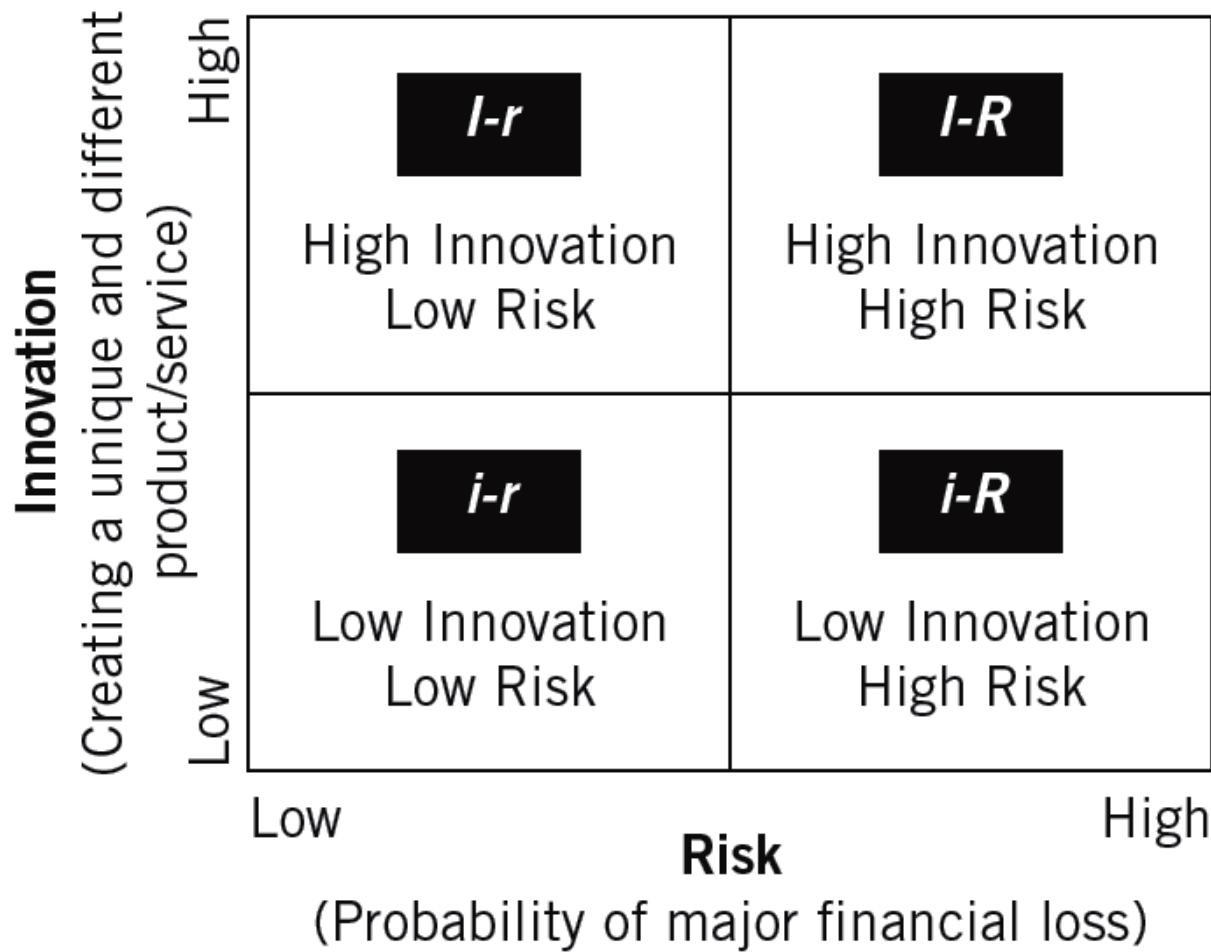
Strategic Approaches: Position, Leverage, Opportunities

	Position	Leverage	Opportunities
Strategic Logic	Establish position	Leverage resources	Pursue opportunities
Strategic Steps	Identify an attractive market Locate a defensible position Fortify and defend	Establish a vision Build resources Leverage across markets	Jump into the confusion Keep moving Seize opportunities Finish strong
Strategic Question	Where should we be?	What should we be?	How should we proceed?
Source Of Advantage	Unique, valuable position with tightly integrated activity system	Unique, valuable, inimitable resources	Key processes and unique simple rules
Works Best In	Slowly changing, well-structured markets	Moderately changing, well-structured markets	Rapidly changing, ambiguous markets
Duration Of Advantage	Sustained	Sustained	Unpredictable
Risk	It will be too difficult to alter position as conditions change	Company will be too slow to build new resources as conditions change	Managers will be too tentative in executing on promising opportunities
Performance Goal	Profitability	Long-term dominance	Growth

Source: Reprinted by permission of *Harvard Business Review* from "Strategy as Simple Rules," by Kathleen M. Eisenhardt and Donald N. Sull (January 2001): 109. Copyright © 2001 by the Harvard Business School Publishing Corporation; all rights reserved.

Figure

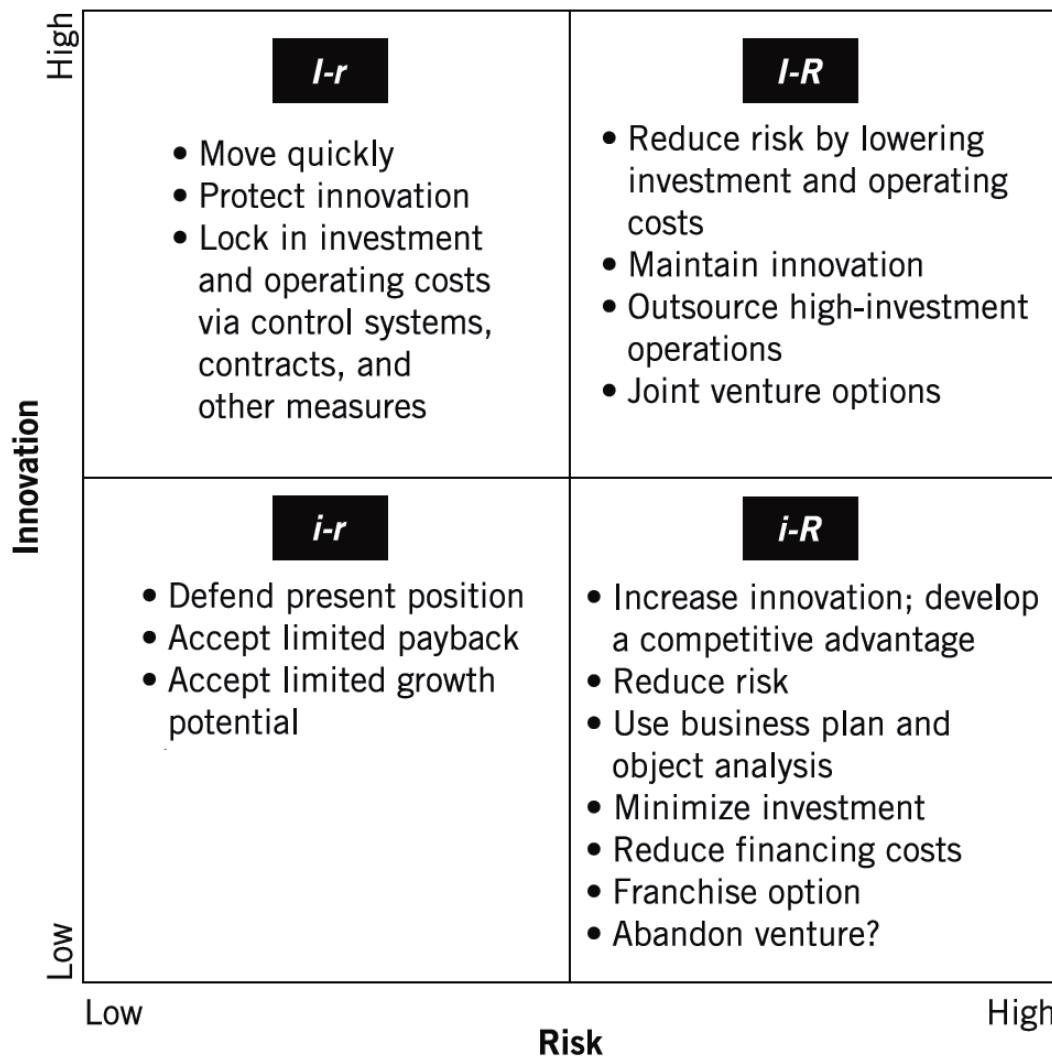
The Entrepreneurial Strategy Matrix: Independent Variables



Source: Matthew C. Sonfield and Robert N. Lussier, "The Entrepreneurial Strategic Matrix: A Model for New and Ongoing Ventures." Reprinted with permission from *Business Horizons*, May/June 1997, by the trustees at Indiana University, Kelley School of Business.

Figure

The Entrepreneurial Strategy Matrix: Appropriate Strategies



Source: Matthew C. Sonfield and Robert N. Lussier, "The Entrepreneurial Strategic Matrix: A Model for New and Ongoing Ventures." Reprinted with permission from *Business Horizons*, May/June 1997, by the trustees at Indiana University, Kelley School of Business.

Venture Development Stages

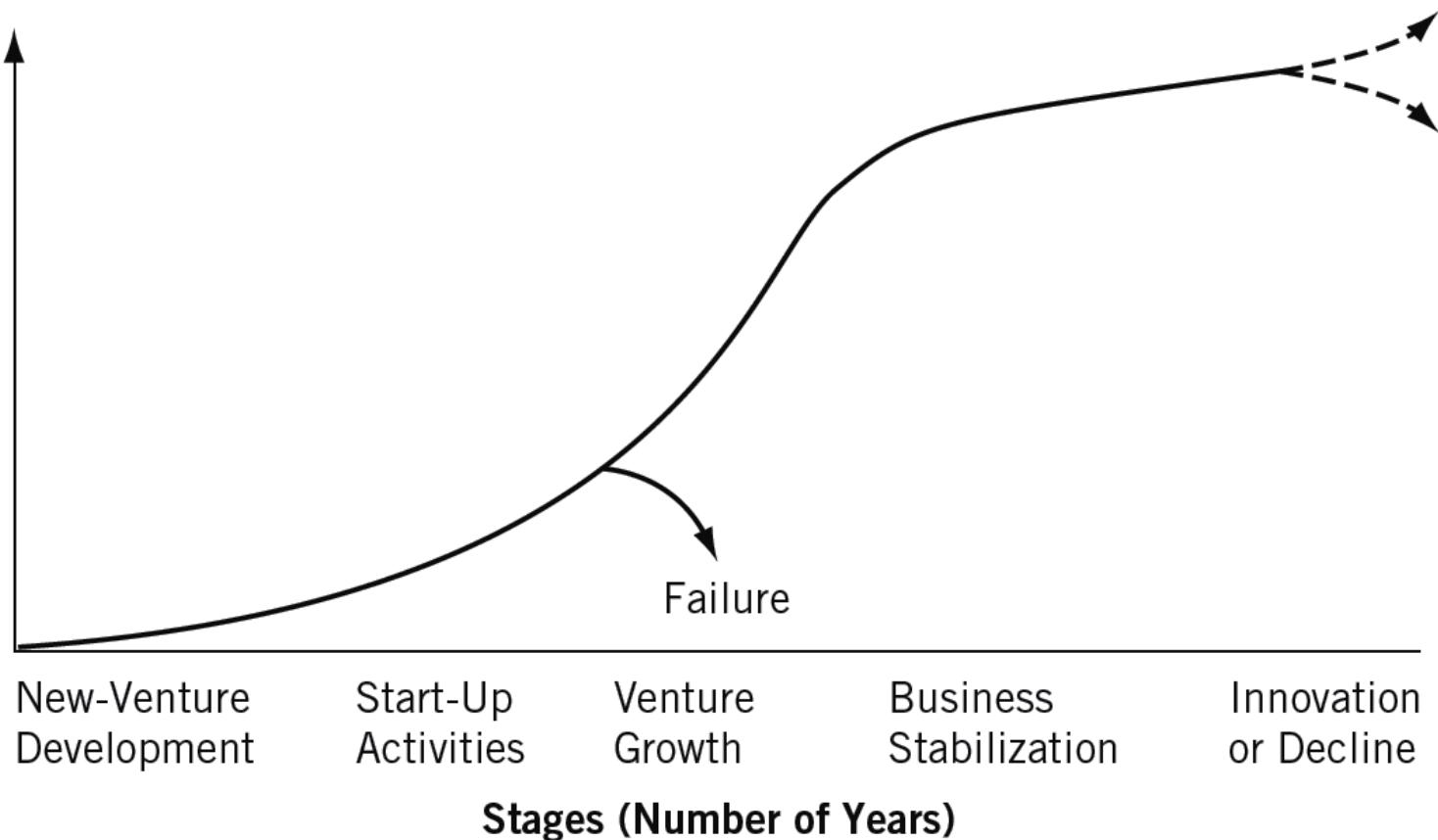
- Life-Cycle Stages of an Enterprise (Chandler)
 1. Initial expansion and accumulation of resources
 2. Rationalization of the use of resources
 3. Expansion into new markets to assure the continued use of resources
 4. Development of new structures to ensure continuing mobilization of resources

Figure

13.5

A Venture's Typical Life Cycle

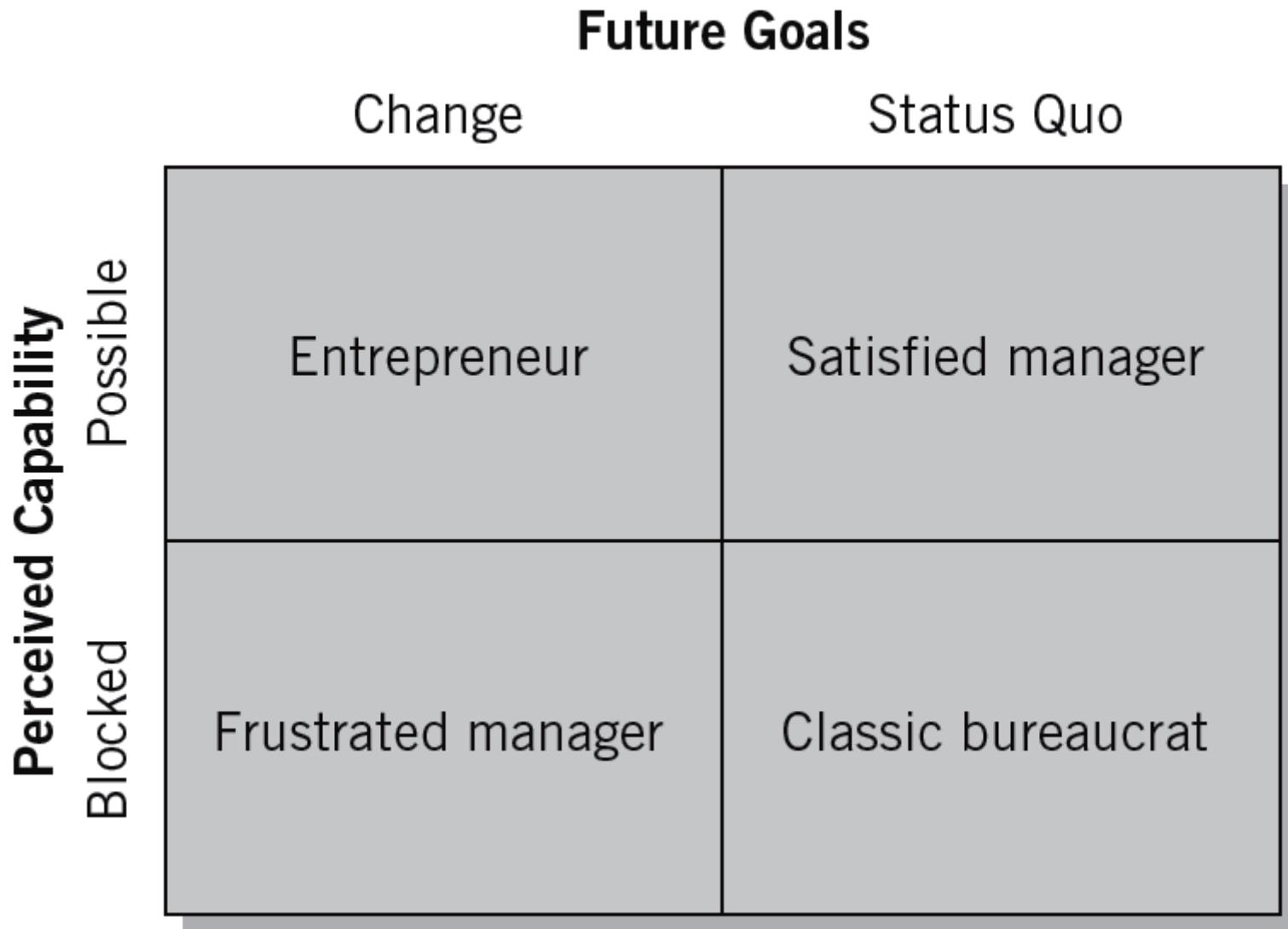
Profit,
Productivity,
Revenues



The Entrepreneurial Company in the Twenty-First Century

- Major Challenges:

- Building dynamic capabilities that are differentiated from those of emerging competitors
- Internal—utilization of the creativity and knowledge from employees
- External—the search for external competencies to complement the firm's existing capabilities.



Table

13.2

The Managerial versus the Entrepreneurial Mind-Set

	Managerial Mind-Set	Entrepreneurial Mind-Set
Decision-making assumptions	The past is the best predictor of the future. Most business decisions can be quantified.	A new idea or an insight from a unique experience is likely to provide the best estimate of emerging trends.
Values	The best decisions are those based on quantitative analyses. Rigorous analyses are highly valued for making critical decisions.	New insights and real-world experiences are more highly valued than results based on historical data.
Beliefs	Law of large numbers: Chaos and uncertainty can be resolved by systematically analyzing the right data.	Law of small numbers: A single incident or several isolated incidents quickly become pivotal for making decisions regarding future trends.
Approach to problems	Problems represent an unfortunate turn of events that threaten financial projections. Problems must be resolved with substantiated analyses.	Problems represent an opportunity to detect emerging changes and possibly new business opportunities.

Source: Mike Wright, Robert E. Hoskisson, and Lowell W. Busenitz, "Firm Rebirth: Buyouts as Facilitators of Strategic Growth and Entrepreneurship," *Academy of Management Executive* 15(1): 114.
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Building the Adaptive Firm

- An Adaptive Firm
 - One that Increases opportunity for its employees, initiates change, and instills a desire to be innovative.
- How to remain adaptive and innovative:
 - Share the entrepreneur's vision
 - Increase the perception of opportunity
 - Institutionalize change as the venture's goal
 - Instill the desire to be innovative:
 - A reward system
 - An environment that allows for failure
 - Flexible operations
 - The development of venture teams

The Transition from an Entrepreneurial Style to a Managerial Approach

- Impediments to Transition:

- A highly centralized decision-making system
- An overdependence on one or two key individuals,
- An inadequate repertoire of managerial skills and training
- A paternalistic atmosphere



Table

13.3

The Entrepreneurial Culture versus the Administrative Culture

Entrepreneurial Focus		Administrative Focus		
	Characteristics	Characteristics	Pressures	
Strategic Orientation	Driven by perception of opportunity	Diminishing opportunities Rapidly changing technology, consumer economics, social values, and political rules	Planning systems and cycles	Social contracts Performance measurement criteria
Commitment to Seize Opportunities	Revolutionary, with short duration	Action orientation Narrow decision windows Acceptance of reasonable risks Few decision constituencies	Evolutionary, with long duration	Acknowledgement of multiple constituencies Negotiation about strategic course Risk reduction Coordination with existing resource base
Commitment of Resources	Many stages, with minimal exposure at each stage	Lack of predictable resource needs Lack of control over the environment Social demands for appropriate use of resources Foreign competition Demands for more efficient use	A single stage, with complete commitment out of decision	Need to reduce risk Incentive compensation Turnover in managers Capital budgeting systems Formal planning systems
Control of Resources	Episodic use or rent of required resources	Increased resource specialization Long resource life compared with need Risk of obsolescence Risk inherent in the identified opportunity Inflexibility of permanent commitment to resources	Ownership or employment of required resources	Power, status, and financial rewards Coordination of activity Efficiency measures Inertia and cost of change Industry structures
Management Structure	Flat, with multiple informal networks	Coordination of key noncontrolled resources Challenge to hierarchy Employees' desire for independence	Hierarchy	Need for clearly defined authority and responsibility Organizational culture Reward systems Management theory

Source: Reprinted by permission of the *Harvard Business Review*. An exhibit from "The Heart of Entrepreneurship," by Howard H. Stevenson and David E. Gumpert, March/April 1985, 89. Copyright © 1985 by the President and Fellows of Harvard College; all rights reserved.

Balancing the Focus—Entrepreneurial versus Manager (Stevenson and Gumpert)

- The Entrepreneur's Point of View
 - Where is the opportunity?
 - How do I capitalize on it?
 - What resources do I need?
 - How do I gain control over them?
 - What structure is best?
- The Administrative Point of View
 - What resources do I control?
 - What structure determines our organization's relationship to its market?
 - How can I minimize the impact of others on my ability to perform?
 - What opportunity is appropriate?

Understanding the Growth Stage

- Key Factors During the Growth Stage

- Control

- Does the control system imply trust?
 - Does the resource allocation system imply trust?
 - Is it easier to ask permission than to ask forgiveness?

- Responsibility

- Creating a sense of responsibility that establishes flexibility, innovation, and a supportive environment.

- Tolerance of failure

- Moral failure
 - Personal failure
 - Uncontrollable failure

- Change

Understanding the Growth Stage (cont'd)

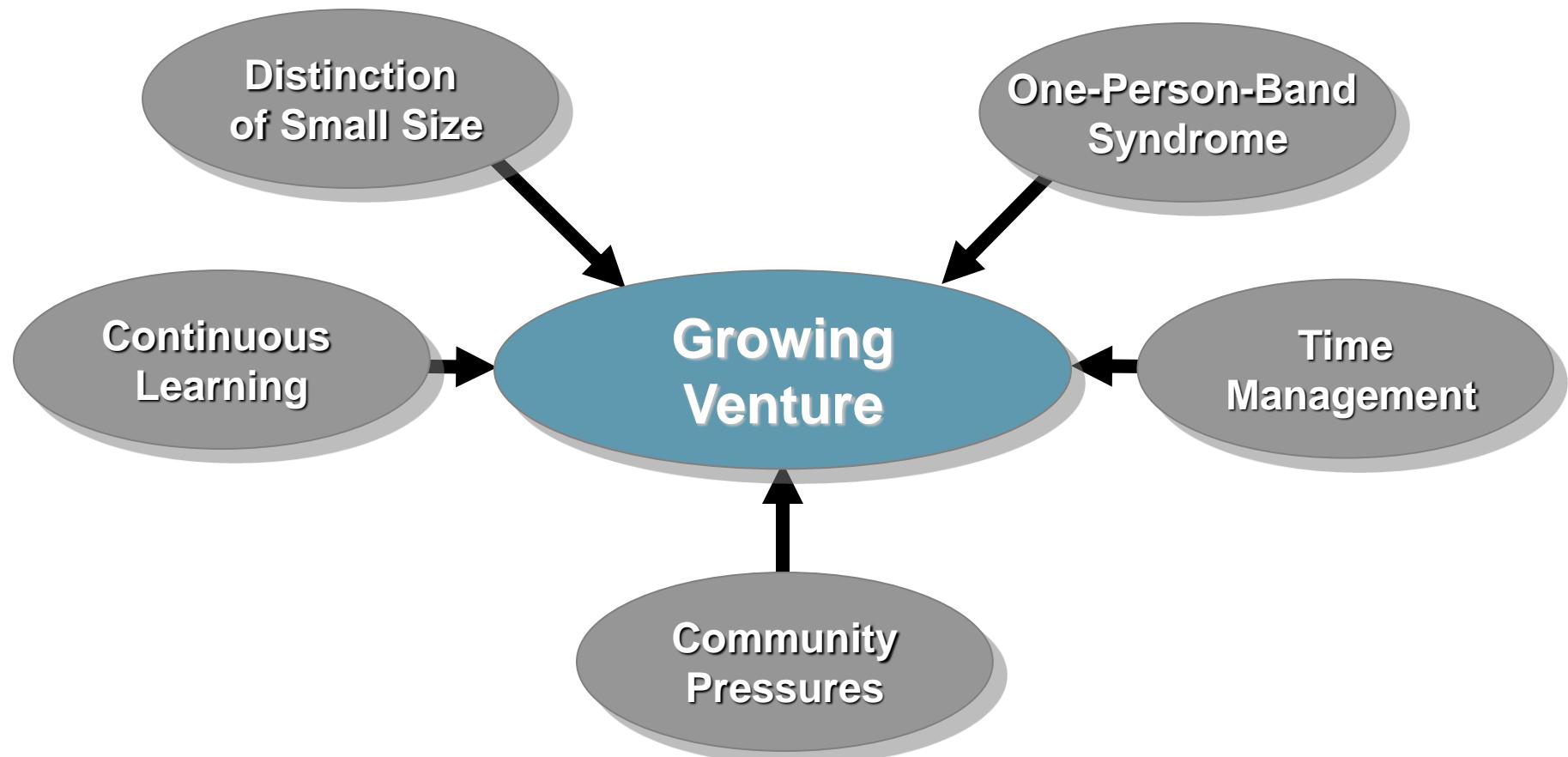
- Managing Paradox and Contradiction
 - Bureaucratization versus decentralization
 - Environment versus strategy
 - Strategic emphases: Quality versus cost versus innovation



Confronting the Growth Wall

- Successful growth-oriented firms have exhibited consistent themes:
 - The entrepreneur is able to envision and anticipate the firm as a larger entity.
 - The team needed for tomorrow is hired and developed today.
 - The original core vision of the firm is constantly and zealously reinforced.
 - “Big-company” processes are introduced gradually as supplements to, rather than replacements for, existing approaches.
 - Hierarchy is minimized.
 - Employees hold a financial stake in the firm.

Unique Managerial Concerns of Growing Ventures



The International Environment: Global Opportunities

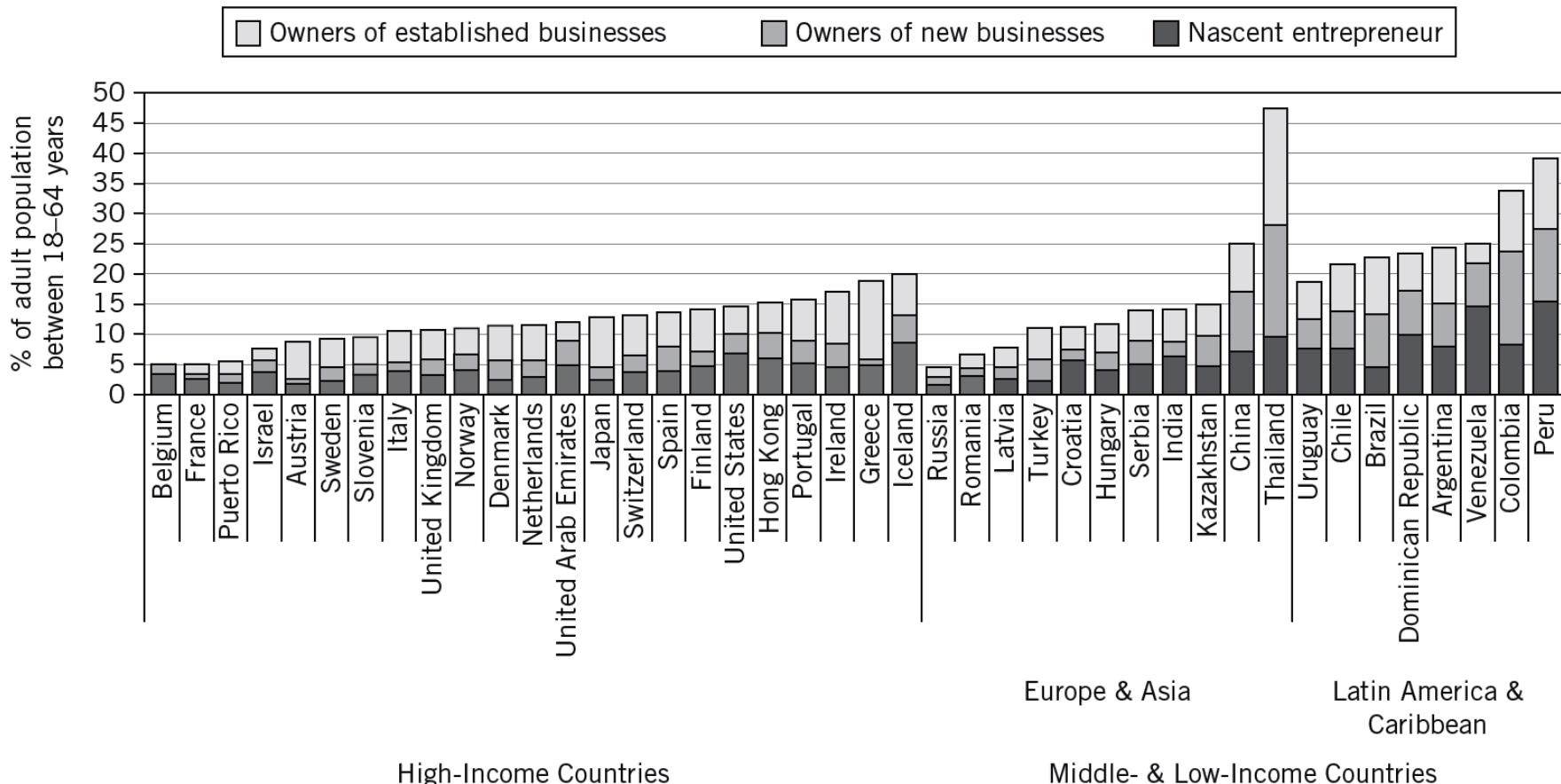
- Global Entrepreneurs

- Rely on global networks for resources, design, and distribution.
- Are adept at recognizing opportunities that require agility, certainty, and ingenuity with a global perspective.
- Must be global thinkers in order to design and adopt strategies for different countries.

Figure

13.7

Share of the World Population Engaged in Entrepreneurship



Source: Niels Bosma, Kent Jones, Erkko Autio, and Jonathan Levie, *Global Entrepreneurship Monitor* (Babson College, Babson Park, MA, and London Business School, London, 2007).

Achieving Entrepreneurial Leadership in the New Millennium

- Entrepreneurial Leadership
 - Arises when an entrepreneur attempts to manage the fast-paced, growth oriented company.
- Components of Entrepreneurial Leadership
 - Determining the firm's purpose or vision.
 - Exploiting and maintaining the core competencies.
 - Developing human capital.
 - Sustaining an effective organizational culture.
 - Emphasizing ethical practices.
 - Establishing balanced organizational controls.

STRATEGIC LEADERS

- ✓ synergistic combination of managerial and visionary leadership
- ✓ emphasis on ethical behavior and value-based decisions
- ✓ oversee operating (day-to-day) and strategic (long-term) responsibilities
- ✓ formulate and implement strategies for immediate impact and preservation of long-term goals to enhance organizational survival, growth, and long-term viability
- ✓ have strong, positive expectations of the performance they expect from their superiors, peers, subordinates, and themselves
- ✓ use strategic controls and financial controls, with emphasis on strategic controls
- ✓ use, and interchange, tacit and explicit knowledge on individual and organizational levels
- ✓ use linear and nonlinear thinking patterns
- ✓ believe in strategic choice, that is, their choices make a difference in their organizations and environment

Table

13.4

Strategic, Visionary, and Managerial Leadership

Visionary Leaders

- ✓ are proactive, shape ideas, change the way people think about what is desirable, possible, and necessary
- ✓ work to develop choices, fresh approaches to long standing problems; work from high-risk positions
- ✓ are concerned with ideas; relate to people in intuitive and empathetic ways
- ✓ feel separate from their environment; work in, but do not belong to, organizations; sense of who they are does not depend on work
- ✓ influence attitudes and opinions of others within the organization
- ✓ concerned with insuring future of organization, especially through development and management of people
- ✓ more embedded in complexity, ambiguity, and information overload; engage in multifunctional, integrative tasks
- ✓ know less than their functional area experts
- ✓ more likely to make decisions based on values
- ✓ more willing to invest in innovation, human capital, and creating and maintaining an effective culture to ensure long-term viability
- ✓ focus on tacit knowledge and develop strategies as communal forms of tacit knowledge that promote enactment of a vision
- ✓ utilize nonlinear thinking
- ✓ believe in strategic choice, that is, their choices make a difference in their organizations and environment

Managerial Leaders

- ✓ are reactive; adopt passive attitudes toward goals; goals arise out of necessities, not desires and dreams; goals based on past
- ✓ view work as an enabling process involving some combination of ideas and people interacting to establish strategies
- ✓ relate to people according to their roles in the decision-making process
- ✓ see themselves as conservators and regulators of existing order; sense of who they are depends on their role in organization
- ✓ influence actions and decisions of those with whom they work
- ✓ involved in situations and contexts characteristic of day-to-day activities
- ✓ concerned with, and more comfortable in, functional areas of responsibilities
- ✓ expert in their functional area
- ✓ less likely to make value-based decisions
- ✓ engage in, and support, short-term, least-cost behavior to enhance financial performance figures
- ✓ focus on managing the exchange and combination of explicit knowledge and ensuring compliance to standard operating procedures
- ✓ utilize linear thinking
- ✓ believe in determinism, that is, the choices they make are determined by their internal and external environments

Source: W. Glenn Rowe, "Creating Wealth in Organizations: The Role of Strategic Leadership," *Academy of Management Executive* 15(1) (2001): 82.

Key Terms and Concepts

- adaptive firm
- entrepreneurial leadership
- entrepreneurial strategy matrix
- global entrepreneur
- growth stage
- growth wall
- innovation
- lack of expertise/skills
- lack of knowledge
- lack of trust and openness
- life-cycle stages
- moral failure
- new-venture development
- one-person-band syndrome
- perception of high cost
- personal failure
- stabilization stage
- start-up activities
- strategic planning
- strategic positioning
- SWOT analysis
- time scarcity
- uncontrollable failure