

# 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



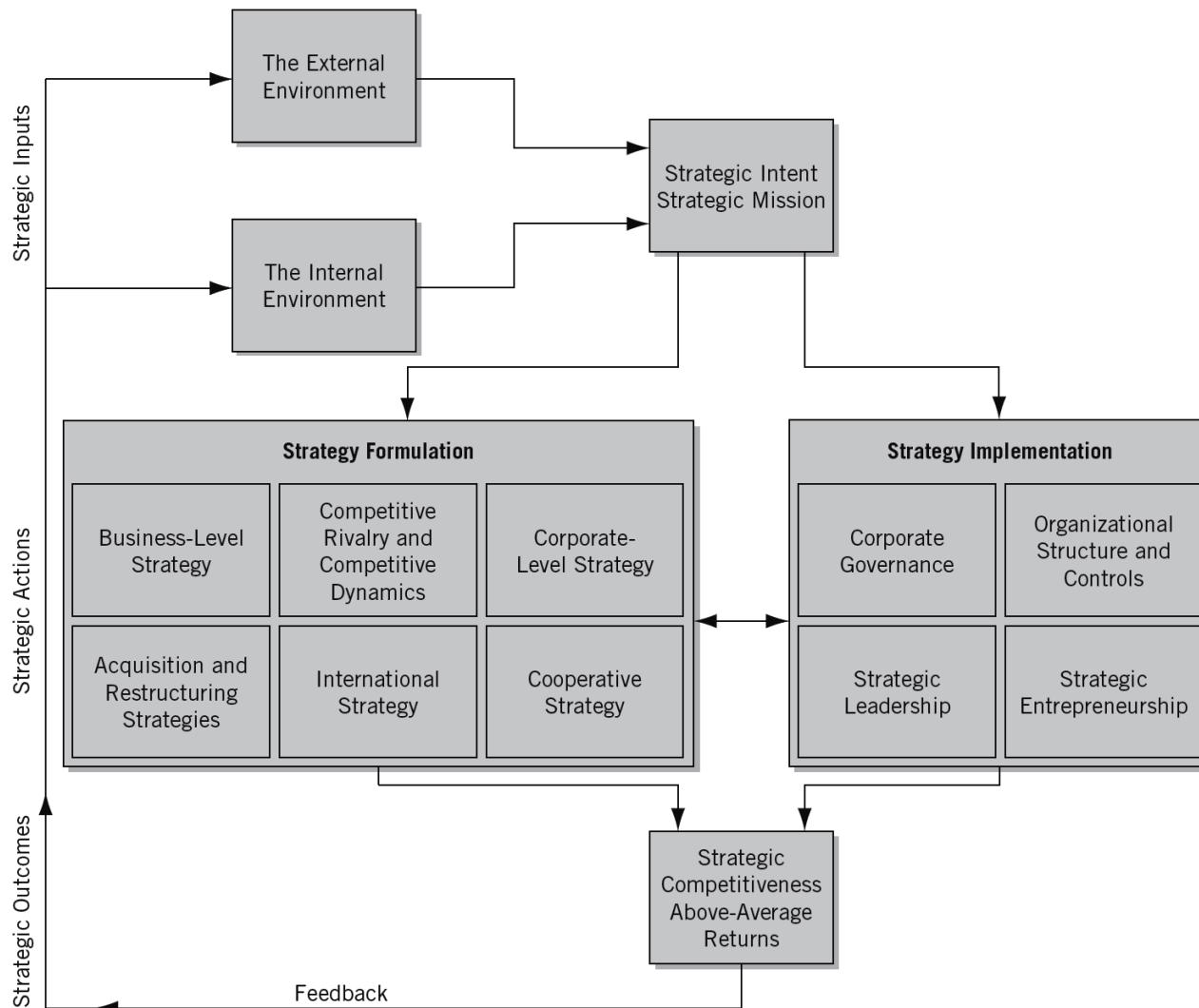
# Strategic Planning (cont'd)

- 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](http://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

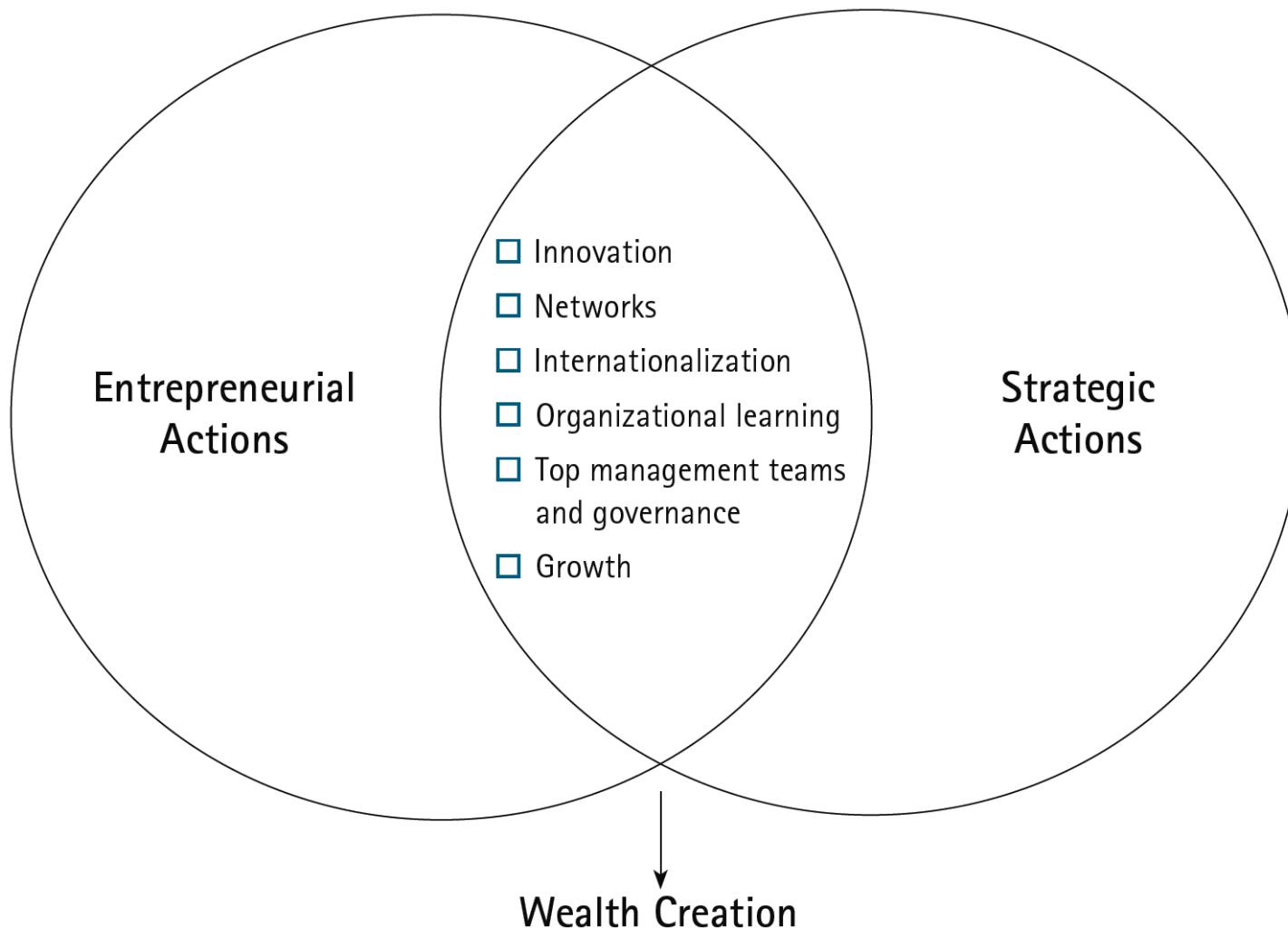
- Fatal mistakes that entrepreneurs fall prey to in their attempt to implement a strategy:
  - Fatal Vision #1: Misunderstanding industry attractiveness
  - Fatal Vision #2: No real competitive advantage
  - Fatal Vision #3: Pursuing an unattainable competitive position
  - Fatal Vision #4: Compromising 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

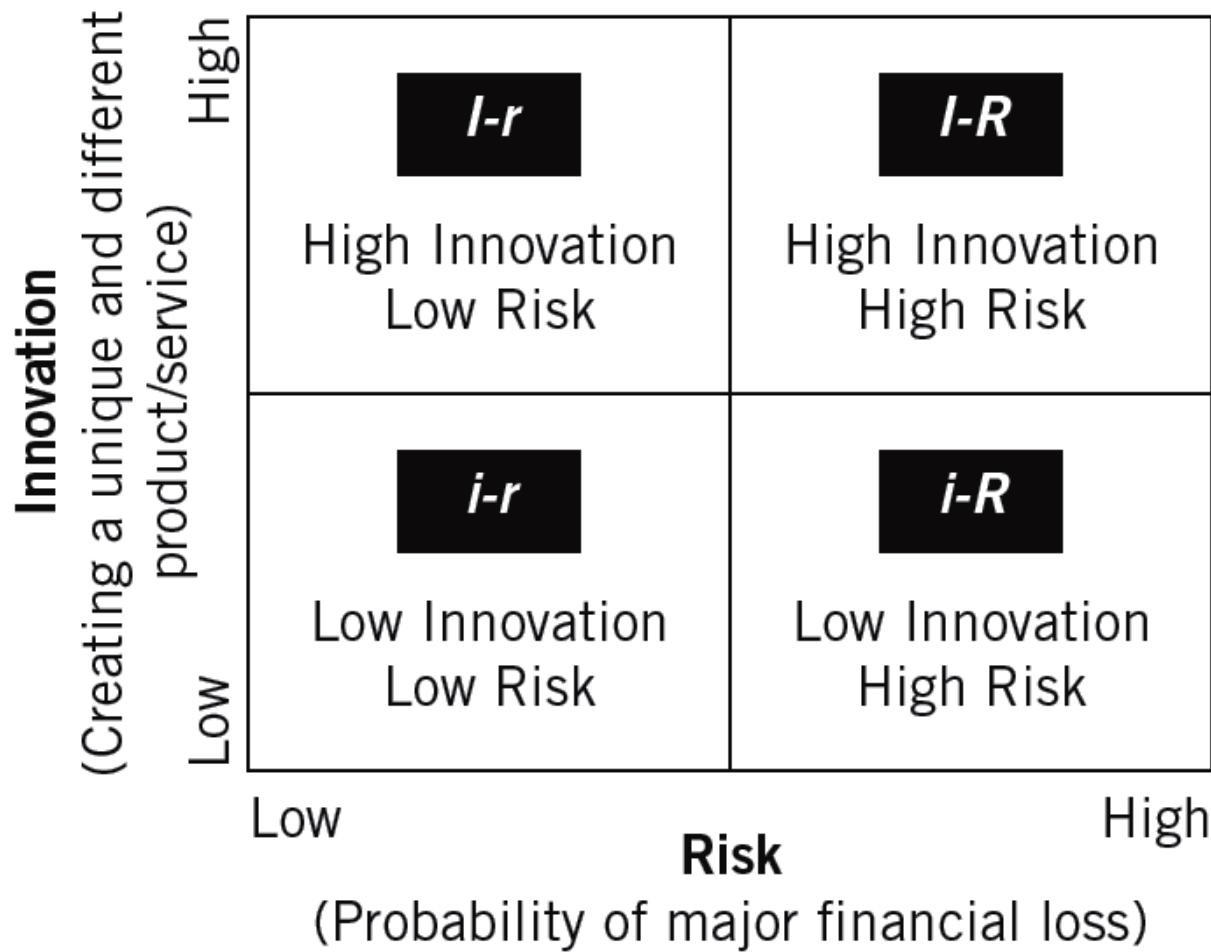
## Strategic Approaches: Position, Leverage, Opportunities

	<b>Position</b>	<b>Leverage</b>	<b>Opportunities</b>
<b>Strategic Logic</b>	Establish position	Leverage resources	Pursue opportunities
<b>Strategic Steps</b>	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
<b>Strategic Question</b>	Where should we be?	What should we be?	How should we proceed?
<b>Source Of Advantage</b>	Unique, valuable position with tightly integrated activity system	Unique, valuable, inimitable resources	Key processes and unique simple rules
<b>Works Best In</b>	Slowly changing, well-structured markets	Moderately changing, well-structured markets	Rapidly changing, ambiguous markets
<b>Duration Of Advantage</b>	Sustained	Sustained	Unpredictable
<b>Risk</b>	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
<b>Performance Goal</b>	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

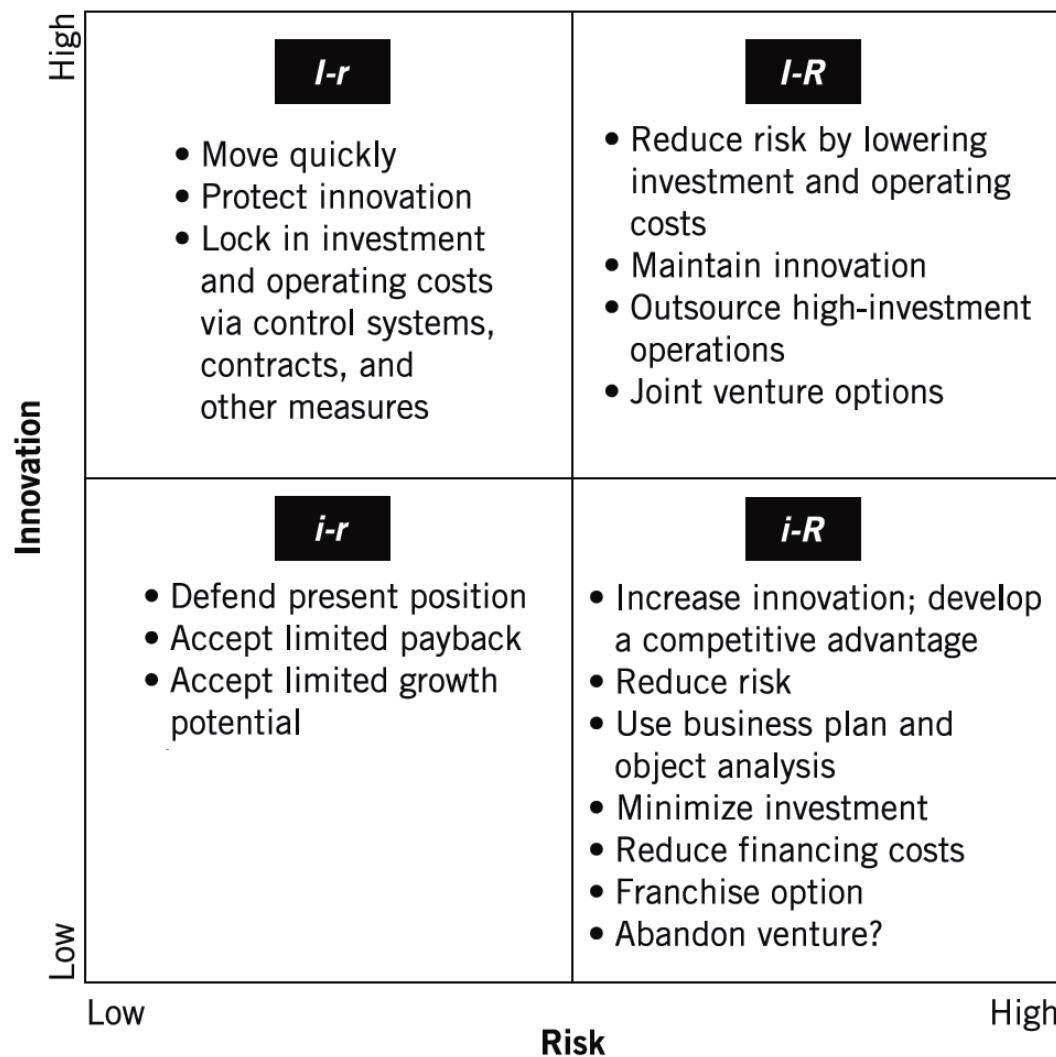
## The Entrepreneurial Strategy Matrix: Independent Variables



**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.

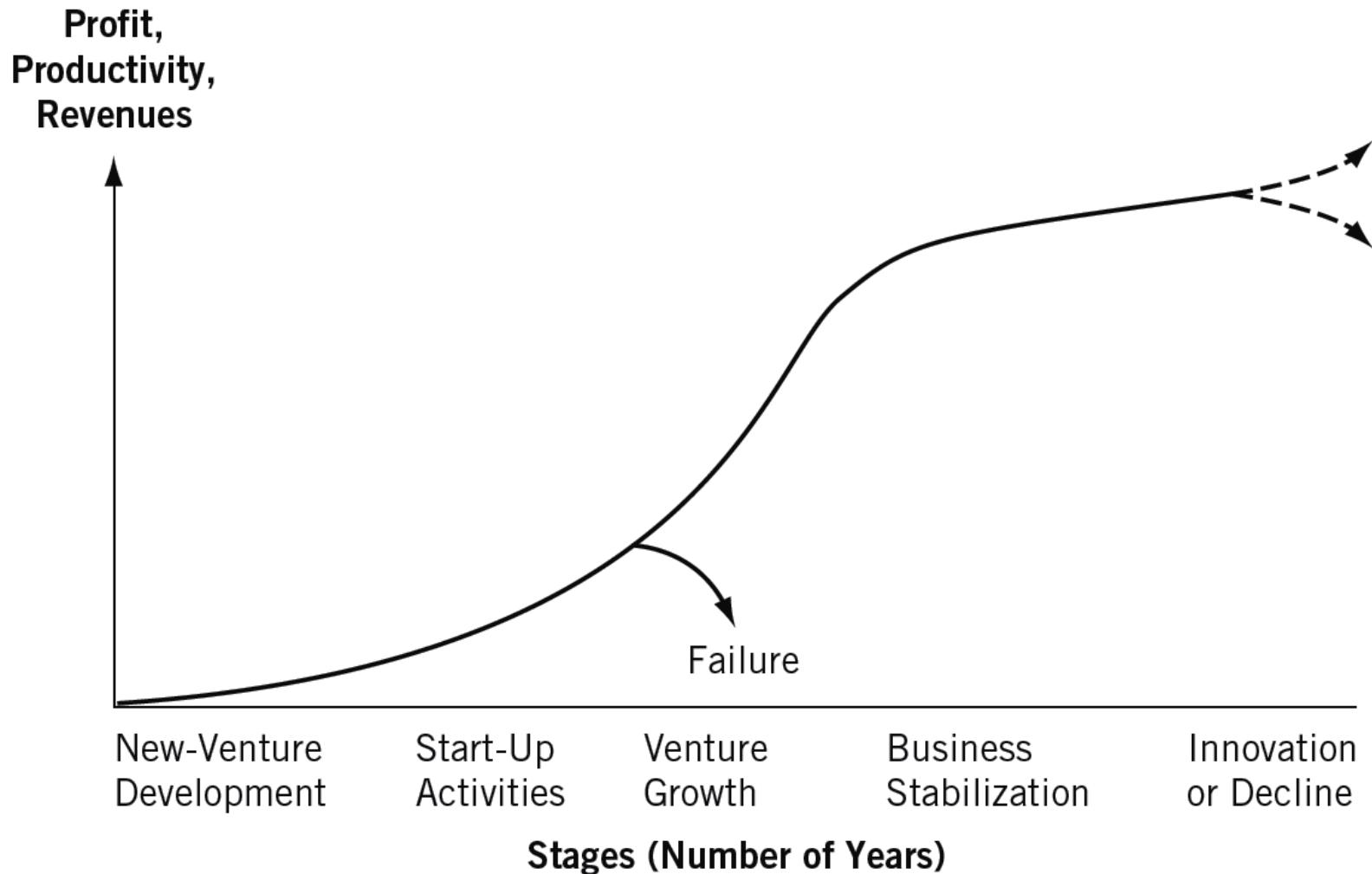
# Venture Development Stages

- 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

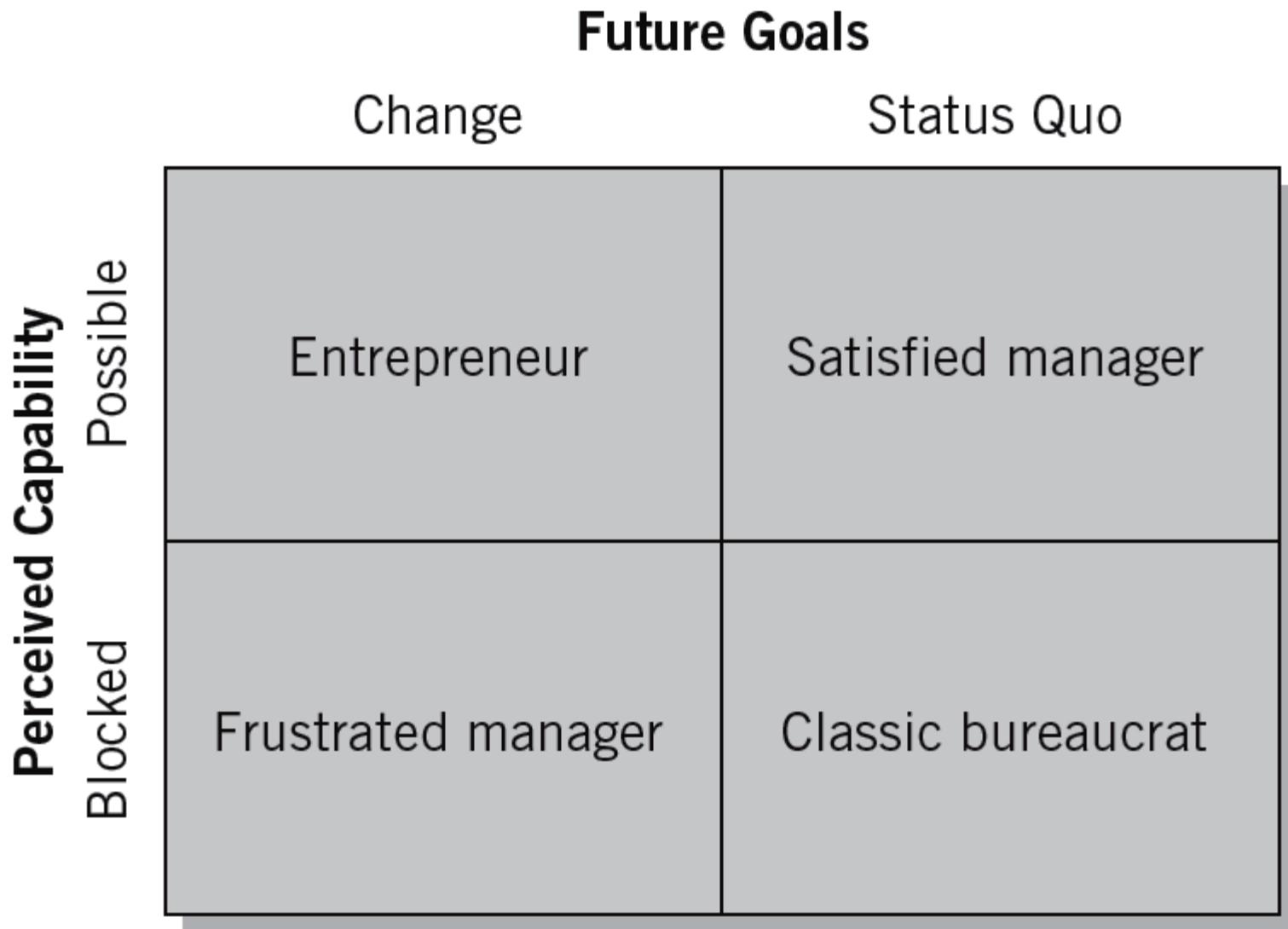
## A Venture's Typical Life Cycle



# 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
<b>Decision-making assumptions</b>	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.
<b>Values</b>	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.
<b>Beliefs</b>	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.
<b>Approach to problems</b>	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	
<b>Strategic Orientation</b>	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
<b>Commitment to Seize Opportunities</b>	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
<b>Commitment of Resources</b>	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
<b>Control of Resources</b>	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
<b>Management Structure</b>	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

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# 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?