

# COMMON DIMENSIONS FOR ENTREPRENEURSHIP AND STRATEGY: THE NEED FOR STRATEGIC ENTREPRENEURSHIP

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***Abstract.** Research about the combination between strategy and entrepreneurship is in the early stages. While the benefits of combining entrepreneurship and strategy are well established, specific details and relations between common elements of strategy and entrepreneurship as a concept remain under-developed and unsubstantiated.*

*This paper explores the relation between entrepreneurship and strategy.*

*The common conception is that entrepreneurship has a strong effect on strategy process.*

**Key words:** entrepreneurship, corporate entrepreneurship, opportunities, uncertainty in business, strategic entrepreneurship.

## 1. Introduction

The combination of entrepreneurship and strategy lead to performance in organizations. The issue of entrepreneurship is very often discussed in relation to strategy process. In this paper I will explore the common dimensions for entrepreneurship and strategy in order to find the factors who can contribute to the performance achievement.

Based on the literature in the disciplines Strategic Management, Management and Entrepreneurship are made various conclusions which can represent new opportunities for research (Luke B. 2005).

The main common dimensions reflected in this paper are: opportunity, innovation, evaluation, uncertainty and risk taking. The analyses is related also to the impact of Corporate Entrepreneurship and Strategic Entrepreneurship on performance.

## 2. Main dimensions for entrepreneurship and strategy

### **Opportunity as a common dimension for entrepreneurship and strategy**

Entrepreneurship can be defined as *the identification and exploitation of previously unexploited opportunities* (Hitt, Ireland, Camp, & Sexton, 2001).

This focus on opportunities is a good basic in order to describe the relationship between entrepreneurship and strategy. Both entrepreneurship and strategic management focus on the ways in which businesses create change by exploiting opportunities they discover within the uncertain environments in which they operate.

Once entrepreneurs have developed the idea, they must begin the process of assessing whether or not the idea is in fact a viable business opportunity.

Entrepreneurs are able to create wealth by identifying opportunities and then developing competitive advantages to exploit them (Hitt & Ireland, 2002).

### **Innovation as a common dimension for entrepreneurship and strategy**

In order to emphasize similarities and differences between entrepreneurship and strategy Hit&Ireland (2000) identify some strategic factors who are representative also for entrepreneurship. The first of these is *innovation*. The source of innovation lies on the interface between an organization and its environment. And the process of innovating involves actively constructing a conceptual framework, imposing it on the environment, and reflecting on their interaction.

Schumpeter (1934) and than Peter Drucker (1986) are very known specialists who analyzed and describe the high correlation between innovation and entrepreneurship.

‘The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. The carrying out of new combinations can take several forms; 1) the introduction of a new good or quality thereof, 2) the introduction of a new method of production, 3) the opening of a new market, 4) the conquest of a new source of supply of new materials or parts, 5) the carrying out of the new organization of any industry.’

In modern definitions entrepreneurship emphasizes a strong link between entrepreneurship and innovation. Entrepreneurship is seen as a critical link between new knowledge and economic growth as it facilitates the transfer of knowledge. These factors distinguish entrepreneurship from more simple forms of management and ordinary business activities.

„The essence of entrepreneurship is being different” (Casson, M (Ed.).1990).

On the other side in strategic management approach, successful innovations are one of the central means for competitive advantage as these are difficult for competitors to understand and duplicate.

Depending on the perspective applied, innovation can be perceived as either the firm performance achieved through entrepreneurial behavior, or as the grounds on which entrepreneurial behavior grows.

### **Organizational learning as a common dimension for entrepreneurship and strategy**

Organizational learning is characteristic for an adaptive organization, like an organization that is able to sense changes in signals from its environment (both internal and external) and adapt accordingly. Both, entrepreneurship and strategy must be adaptable to new demand structures and trends. A learning organization actively creates, captures, transfers, and mobilizes knowledge to enable it to adapt to a changing environment. Thus, the key aspect of organizational learning is the interaction that takes place among individuals.

### **Common dimensions for entrepreneurship and strategy**

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A business repositioning or organizational transformation through learning would be much less painful than an ordinary organizational changing process because of no resistance to change and would be more likely successful. (Dai Z., Duserick F. 2005).

Strategic management can increase efficiency and competitiveness in accordance with improved learning. Exchange of technical information is key in order that technological advances are made and organizations can adapt in the face of changing environments.

Organizational learning is a source of sustainable competitive advantages when is based on continued innovations.

#### **Evaluation as a common dimension for entrepreneurship and strategy**

Evaluation of business opportunities should be conducted not just by the entrepreneur but also by as many stakeholders in the new venture as possible: potential customers or clients, employees, advisers, investors, and suppliers. The same approach is effective also for the strategy formulation and development process. For the strategy formulation the managers have to take into account the results of the stakeholders analyses. In order to speak about successful strategies is very important to determine the relation between the strategy and the main stakeholders and the relation between these strategy and other business or corporate strategies. The relation between the strategy and the stakeholders can be reduced to the model of expectation from each part. The identification of the main expectation help the manager to find measures in order to reduce the resistance in the implementation phase.

Once the manager defined the firm's strategy he will find that he will need to revisit and adapt the strategy based on the conditions and context of the industry and marketplace. As customers' needs and preferences change, the firm will need to take a proactive approach in understanding how these changes influence the overall operations and efficiencies of your business. One of the ways to stay ahead and meet the expectations of your customers is to understand the key drivers within the industry.

Once the entrepreneur has determined the industry's key drivers over time, those drivers can be assessed based on how well they meet the firm's strategy (Lehmann & Winer, 2005).

Evaluating a new idea or a new strategy involves testing *its feasibility*, the extent to which the idea or the strategy is a viable and realistic business opportunity. One of the first steps required in assessing the feasibility of an idea is to become aware of forces and factors in the internal and external environment that directly influence the opportunity.

For example internal factors include: the knowledge, skills, and abilities of the entrepreneur, the management team members, employees, and advisers but also the resources available to the entrepreneur, including people, financial resources, and technologies that can be acquired for the launch and growth of the opportunity.

When the entrepreneur has completed the feasibility analysis, the next steps into business involve strategic planning.

**Grow, flexibility and change as common dimensions for entrepreneurship and strategy**

Grow, flexibility and change are dimensions that contribute to enterprise success and are also part of entrepreneurial approach.

Grow is identified by Mintzberg as a key element of the entrepreneurial mode.

Many management researchers and practitioners believe that a large firm cannot innovate because of the need for stability. The nature of any large organization is to be hostile to change.

Flexibility is defined as the degree to which a business unit is adaptable in administrative relations. A firm exhibiting low flexibility is rigid in administrative relations and strictly adheres to bureaucratic practices.

For a firm is essentially if it's able to respond quickly to change. The flexibility will allow quickly response to change. Flexibility is a necessity for development, for strategic entrepreneurship and for continuous developing of competencies.

**Uncertainty and risk taking as a common dimension for entrepreneurship and strategy**

To obtain high financial returns, firms take risks as assuming high levels of debt, committing large amounts of firm resources, introducing new products into new markets, and investing in unexplored technologies.

In some ways, the most of the approaches to internal development are potentially risky. Whether they have aggressive, or innovative strategies, firms on the path of corporate entrepreneurship must act without knowing how their actions will turn out. Before launching their strategies, entrepreneurs must know their firm's appetite for risk.

The research in strategy (Roberts&Mayer, 1991) and corporate entrepreneurship agree that the presence of uncertainty during the new venture process is an important obstacle for success. Corporate entrepreneurship is always undertaken under uncertainty, since it involves striving after something new, something beyond the existing business.

Three types of risk are common analyzed in the entrepreneurship literature: business risk, financial risk and personal risk.

A source of uncertainty in business is unpredictability in conditions, as a result of industry dynamism or technological change (Chen et al., 2005).

These processes are often related to one or both of two main types of uncertainty:

- technical uncertainty is consistent with task uncertainty in handling the development and production issues of the ventures technical side (Chen et al., 2005).
- market uncertainty refers to lack of information about exogenous conditions that determine whether there will be a sufficient demand for the new business.

Financial risk taking requires that the entrepreneur or the company borrow heavily a large portion of its resources in order to grow.

Companies can use methods to reduce the uncertainty surrounding them and to improve their competitive position like: researching and assessing risk factors to minimize uncertainty or using techniques that have worked in other domains.

Risk taking, by its nature involves potential dangers and pitfalls. Risk management and a strategy to avoid the risk are likely to lead to competitive advantages.

Strategic managers must always remain mindful of potential risks. Peter Drucker (1986) argued that successful entrepreneurs are typically not risk takers. Instead, they take steps to minimize risk by carefully understanding them.

### **3. Corporate Entrepreneurship as a Strategy**

**Corporate Entrepreneurship** has two primary aims: the pursuit of new venture opportunities and strategic renewal.

Corporate Entrepreneurship use the fruits of the innovation process to help firm build new sources of competitive advantage and renew their value propositions (Dess G.G., Lumpkin G.T. Eisner A.B., 2006).

In the strategy literature corporate entrepreneurship was defined as an element of business strategy.

Recent studies of corporate entrepreneurship literature recognized that corporate entrepreneurship is an element of corporate strategy and argue that are distinctive features that differentiate it from other elements of corporate strategy (Narayanan et al., 2006).

Corporate entrepreneurship can result in a change of the corporate business portfolio. For example a successful venture adds a new area of business that complements or replaced current ones.

One important factor that is related both to corporate entrepreneurship and strategy formulation and implementation is the culture. In new successful companies, the corporate culture embodies the spirit of entrepreneurship. A culture of entrepreneurship is one in which the search for venture opportunities permeates every part of the organization. In a similar way, the effect of corporate entrepreneurship on a firm's strategic success is strongest when it animates all parts of an organization. It is found in companies where the strategic leaders and the culture together generate a strong impetus to innovate, take risk, and seek out new venture opportunities.

Thus, an entrepreneurial culture is one in which change and renewal are on everybody's mind. Many fast-growing young companies also attribute much of their success to an entrepreneurial culture.

Firms that want to engage in successful corporate entrepreneurship need to have an entrepreneurial orientation. The entrepreneurial orientation refers to the strategy-making practices that business use in identifying and launching corporate ventures.

Corporate entrepreneurship reflects, over time, the vision of the entrepreneur. This approach consider corporate entrepreneurship as an on-going strategic consideration of entrepreneurial opportunities rather than as an isolated activity diverging from strategy.

### **4. Entrepreneurship and Strategy in SME**

Strategic management has traditionally been concerned with large corporations, and entrepreneurship has mainly focused on start-up ventures and small firms. Strategic management of large corporations has been largely concerned with optimizing the use of existing resources, making judicious allocation decisions and controlling correct utilization, while entrepreneurship implies identifying new needs, proposing original solutions and creating new organizations. A unifying factor between strategic management and entrepreneurship is also found in the fact that researchers in both fields use firm performance as a primary dependent variable.

Belongs to the new approach also in SME we can speak about corporate entrepreneurship. Here we can found contextual differences:

- have less resources and relatively narrow business scope;
- have top managers with insight into the daily operational activities because of the smaller organizational distances in general, and through their direct involvement at the operative level;
- have less unused resources, at operational level because the relatively good top management operational insight leads to tighter control;
- have contact with customers and other interactions with the external environment carried out by top managers;
- be less able to isolate corporate ventures from current business activities.

As an example, cooperative strategies are at the same time a great opportunity and a serious threat to the firm. This is especially true for small and medium-sized enterprises (SMEs). Cooperative strategies are of vital importance for SME. By bringing together critical resources such as knowhow or production capacities partners may come up with unique combinations that generate competitive advantages. This process allow them to overcome the problems of smallness which otherwise restricts competing with larger enterprises in the market.

### **5. Strategic Entrepreneurship**

Strategic Entrepreneurship is the integration of entrepreneurship and strategic management knowledge (Ireland et al., 2003). Successful entrepreneurs are able to notice the possibilities that many other people seem to miss, and, more important, they are then able to find the means to turn these possibilities into action: to bring to the market something novel and useful.

## **Common dimensions for entrepreneurship and strategy**

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The fundamental contribution to considering the role of the entrepreneur in *strategy making* was Mintzberg's interpretation of the entrepreneurial mode of decision making, which has been amply mirrored in top organization theory journals (Mintzberg 1977, Mintzberg & Waters 1982).

From the perspective of the role of the entrepreneur as a decision-maker, it seems natural to analyze entrepreneur's influence on a firm's strategy. Over the last few years, research has taken a new direction, bringing out the separate and distinct function of the entrepreneur in contrast to that of the manager. The manager, one could argue, must operate under normal conditions and in routine business functions, while exactly the opposite qualities are needed for successful entrepreneurship.

Strategic entrepreneurship involves simultaneous opportunity-seeking and advantage-seeking behaviors and results in superior firm performance. On a relative basis, small, entrepreneurial ventures are effective in identifying opportunities but are less successful in developing competitive advantages needed to appropriate value from those opportunities. In contrast, large, established firms often are relatively more effective in establishing competitive advantages but are less able to identify new opportunities. (Ireland, R. D., Hitt, M. A., & Sirmon, D. G. 2003).

Specifically Strategic Entrepreneurship refers to an entrepreneurial activity with a strategic perspective. This concept can be viewed as an extension of a entrepreneurial strategy making.

Strategic Entrepreneurship emphasizes the importance of managing entrepreneurial resources or activities strategically in order to obtain competitive advantage.

### **6. Conclusion**

Research in the area of strategic entrepreneurship remains in the early stages.

This paper contribute to the understanding of the relations between strategy and entrepreneurship and to have an integrative approach for promoting performance in organizations. Strategic entrepreneurship helps a firm to respond properly to the types of significant environmental changes that face many of today's organizations. Beyond this effective strategic entrepreneurship helps the firm develop relatively sustainable competitive advantages.

Both new ventures and established firms must practice strategic entrepreneurship and integrate entrepreneurial and strategic perspectives.

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