Chapter 11

Strategic entrepreneurial growth
Objectives

1. To introduce strategic design for an entrepreneurial venture
2. To discuss some of the reasons why entrepreneurs do not carry out strategic planning
3. To outline entrepreneurial strategy and some benefits of strategic planning
4. To examine the transition from an entrepreneurial style to a managerial approach
5. To discuss the five stages of a typical venture life cycle
6. To identify key management issues occurring during the growth stages
7. To introduce the steps useful for breaking through the growth wall
8. To identify the unique managerial concerns with a growth business
9. To elaborate the concept of entrepreneurial leadership
10. To outline ways to incorporate sustainability into business strategy
But first
What does ‘strategic’ really mean? (Especially for new ventures)
Key strategic drivers: uncertainty and growth

• Strategy is in need of an urgent makeover in the new age.
  – Sustainability must be integrated into the strategy of an entrepreneurial company from the beginning.

• An entrepreneur’s strategic style will be shaped by:
  – the degree of uncertainty impacting the venture
  – the strength of the competition
  – the amount and type of experience of the entrepreneur.
Entrepreneurial strategy design and planning

• **Entrepreneurial strategy** includes defining the venture’s **vision**, **mission** and **strategic intent**.
• Commitments for a business to achieve competitive advantage
• ‘Inputs’ come from analyses for effective strategy formulation and implementation.
• Strategic ‘actions’ are a prerequisite for achieving desired outcomes.
• The process is continuously cyclic and used to match the conditions of an ever-changing market and competitive structure with a new firm’s opportunity, resources, capabilities and competencies.
• **Strategy process**
  – Examine the internal and external environments (SWOT)
  – Formulate short- and long-term strategies
  – Implement the strategic plan
  – Evaluate the performance of the strategy
  – Take follow-up action through continuous feedback
SWOT analysis

• SWOT: A review of the internal and external factors that influence the opportunity and hence the viability of a venture

• SWOT is an acronym for a venture’s internal strengths and weaknesses and its external opportunities and threats
Why don’t entrepreneurs plan?

• Time scarcity
• Lack of knowledge
• Lack of expertise/skills
• Lack of trust and openness
• Perception of high cost

Value of strategic planning

• Planning influences a firm’s survival.
• Lack of planning is one of the top reasons for failure.
• Firms with strategic plans outperform those without.

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Fatal flaws

• Porter’s (1991) five fatal mistakes:
  1. Misunderstanding industry attractiveness
  2. No real competitive advantage
  3. Pursuing an unattainable competitive position
  4. Compromising strategy for growth
  5. Failure to communicate the strategy to employees
Entrepreneurial and strategic actions: Where do they combine?

- Strategic management is about establishing and exploiting competitive advantage within a particular environment.
- Entrepreneurship is about searching for competitive advantage through product, process and market innovation.
- There is substantial overlap.

Strategic positioning

• A process of perceiving new positions that attract customers from established positions or draw new customers into the market.

• Strategic positioning involves:
  − establishing and defending a position
  − leveraging resources to dominate the market
  − pursuing opportunities to establish new markets.

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Designing the business model

• Forces include:
  – the trend towards globalisation
  – the advent of new technology
  – the information movement.

• The pace and magnitude of change is accelerating.
• Entrepreneurial businesses must evolve and transform to match this pace.
# Osterwalder’s business model framework

<table>
<thead>
<tr>
<th>2 Customer segment</th>
<th>3 Customer relationships</th>
<th>4 Distribution channels</th>
<th>Strategic positioning perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>The groups of customers a company identifies for its value offering</td>
<td>The information exchange links with customers that inform a company’s value offering</td>
<td>The means of transferring the value offering to the customer</td>
<td></td>
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<table>
<thead>
<tr>
<th>5 Revenue model</th>
<th>1 Value proposition</th>
<th>6 Cost structure</th>
<th>Economic perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>The money a company acquires in exchange for its value offering</td>
<td>The firm’s value offering that attracts customer and operational transactions</td>
<td>The money a company spends to create and/or maintain its value offering</td>
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<thead>
<tr>
<th>7 Key resources</th>
<th>8 Partner network</th>
<th>9 Key activities</th>
<th>Organisational architecture perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Everything, other than money, that is used by the company to create the value offering</td>
<td>Those companies that a company selects to operate with to enable and create its value offering</td>
<td>The things a company does to utilise its resources in creating the value offering</td>
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# Does an entrepreneur really make a good manager?

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<tr>
<th>Managerial mind-set</th>
<th>Entrepreneurial mind-set</th>
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<tbody>
<tr>
<td><strong>Decision-making assumptions</strong></td>
<td>The past is the best predictor of the future. Most business decisions can be quantified. Keep milking the money.</td>
</tr>
<tr>
<td><strong>Values</strong></td>
<td>Decisions can be quantified. Rigorous analyses are highly valued for making critical decisions.</td>
</tr>
<tr>
<td><strong>Beliefs</strong></td>
<td>Big data is good. Law of large numbers: chaos and uncertainty can be resolved by systematically analysing the right data.</td>
</tr>
<tr>
<td><strong>Approach to problems</strong></td>
<td>Problems must be resolved with substantiated analyses.</td>
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Balancing the focus – entrepreneurial versus managerial

Entrepreneurs use ‘**effectual logic**’ to pursue opportunity *without regard to resources currently controlled*.

**Entrepreneurs** adapt the ‘means’ to meet an imagine new ‘end’

- Where is the opportunity?
- How do I capitalise on it?
- What resources do I need?
- How do I gain control over them?
- What structure is best?

**Managers** work with given ‘means’ to achieve given ‘ends’

- What resources do I control?
- What structure determines our organisation’s relationship to its market?
- How can I minimise the impact of others on my ability to perform?
- What opportunity is appropriate?
Beyond diversification – Blue Ocean Strategy

- Think through the lens of value innovation.
- Blue oceans different from red oceans (blood-soaked waters as competitors brutally contest for customers).
- You are not bound to play by the rules of the established market contestants.
- Customer experience can be improved by redefining the current rules of the industry.

Cirque du Soleil created a new market space by blending opera and ballet with the circus while eliminating star performers and animals.
Managing entrepreneurial growth

Adaptive firm: A venture that remains adaptive and innovative both through and beyond the growth stage.

Life cycle stages: The typical life cycle through which a venture progresses, including venture development, start-up, growth, stabilisation, and innovation or decline.

Stabilisation stage: The ‘swing’ stage of new venture growth characterised by increased competition, consumer indifference, market saturation, ‘me too’ lookalikes and sales plateauing. Either the firm swings into higher gear or moves towards decline.

New-venture development: Essentially a start-up business launched by an entrepreneur. The first stage of a venture’s life cycle.

Start-up activities: The second stage of a new-venture life cycle, encompassing the foundation work needed for creating a formal business plan, searching for capital, carrying out marketing activities and developing an effective entrepreneurial team.

Growth stage: The third stage of a new-venture life cycle, typically involving activities related to reformulating strategy in light of the competition.
How to get beyond the growth wall

• In successful companies:
  – the entrepreneur is able to envision and anticipate the company as a larger entity
  – the team needed for tomorrow is hired and developed today
  – hierarchy is minimised
  – employees hold a financial stake in the company
  – the original core vision of the company is constantly and zealously reinforced.
Unique concerns for growing ventures

• Emerging businesses differ in many ways from larger, more structured businesses.
  – One-man-band syndrome
  – Small size is not all bad
  – Time management
  – Community pressure
Entrepreneurial leadership: Which style is best?

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<tr>
<th>Strategic leaders</th>
<th>Visionary leaders</th>
<th>Managerial leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combines both managerial and visionary</td>
<td>Shape what people think</td>
<td>Relate to people according to their roles</td>
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<tr>
<td>Oversee day-to-day and long-term</td>
<td>Work to develop fresh approaches</td>
<td>See themselves as conservators and regulators of order</td>
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<tr>
<td>Formulate and implement strategies</td>
<td>Are concerned with ideas</td>
<td>Influence actions and decisions of others</td>
</tr>
<tr>
<td>Have strong, positive expectations of performance</td>
<td>Influence attitudes and opinions of others</td>
<td>Concerned with and more comfortable in functional responsibilities</td>
</tr>
<tr>
<td>Use strategic controls more than financial</td>
<td>Concerned about future of organisation</td>
<td>Less likely to make value-based decisions</td>
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<tr>
<td>Use linear and non-linear thinking</td>
<td>Willing to invest in innovation, human capital and culture</td>
<td>Utilise linear thinking</td>
</tr>
<tr>
<td>Believe their choices make a difference</td>
<td>Utilise non-linear thinking</td>
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Strategic sustainable development

- Is it ethical to pursue opportunity without regard to resources?
- Don’t Earth’s resources fall into this category?
Three legs of sustainability entrepreneurship

- Sustainability wealth generation means contributing a holistic net benefit to the economy, community and natural environment.
Creating a sustainable organisation

- Use the metaphor of the DNA helix.
- Shows the interactions between the various strands that are complex and interactive.
- Each strand is supported by a series of strategies and tools.
New strategy tools for sustainability

- In the following list, simply change the word biodiversity to ‘water’, ‘food’, ‘energy’, ‘population’, etc. and you will see the power of this instrument for entrepreneurial planning.

- **BioDefinition**: Provides businesses and investors with an initial idea of the biodiversity-related risks and opportunities associated with the business.

- **BioSwot**: Guides the development of a Biodiversity Business Plan (BBP) or to prepare a more detailed analysis of an investment opportunity.

- **Biodiversity Management Plan (BMP)**: Defines actions by which biodiversity performance can be optimised within the business development plan.

- **BioGovernance**: Applied when institutional arrangements for the biodiversity business are developed.

- **BioPerformance Monitoring**: Evaluates and report on the business’ achievement of objectives.
Strategic backcasting

- Exploring the strategic implications of sustainability.
- Future desired conditions are envisioned, and steps are defined to achieve them.
- Identify several future scenarios, and undertake quantitative analysis to figure out how to get there.
Sustainability growth strategy for planet and profits

**Within the organisation**

- **Stage one: Pollution prevention**
  - Where are the most significant waste and emission streams from our current operations? Can we lower costs and risks by eliminating waste at the source or by using it as useful input?

- **Stage three: Clean technology**
  - Is the environmental performance of our products limited by our existing competency base? Is there potential to realise major improvements through new technology?

**Outside the organisation**

- **Stage two: Product stewardship**
  - What are the implications for product design and development if we assume responsibility for a product’s entire life cycle? Can we add value or lower costs while simultaneously reducing the impact of our products?

- **Stage four: Sustainability vision**
  - Does our corporate vision direct us towards the solution of social and environmental problems? Does our vision guide the development of new technologies, markets, products and processes?
Key concepts

(Close your books.)

• In what way does an entrepreneur’s vision affect the company’s strategic plan?
• What are the reasons why many entrepreneurs fail to formulate strategic plans?
• What are some ways of planning for a sustainable business?