A theoretical overview of the interactions between entrepreneurship and strategic management

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Abstract:

This work provides a useful emphasis on the interactions between entrepreneurship and strategic management. The causes of individual entrepreneurial action and strategic management process constitute the primary interest of the researcher. Both the individual entrepreneur and the environment as it relates to the motives of individual entrepreneurial behavior are considered. Strategic management is the process of assessing the corporation and its environment in order to meet the long-term objectives of the organization. It refers to the series of decisions taken by management to determine the long-term objectives of the organization and the means to achieve these objectives. Once a mission has been established, strategies are developed to pursue it. An organization must develop a form of strategic management to control these strategies. Through strategic management, an organization can handle its mission while at the same time assessing the relationship of the organization to its environment. The convergence of entrepreneurship and strategic management is being driven partly by time and responsiveness – speed of innovation and actions taken in the marketplace.

Key words:

Entrepreneurship, management, organization, strategy, strategic management, strategic management process, entrepreneurial behavior.

1. Introduction

One of the oldest definitions on entrepreneurship is the one given by Richard Cantillon[1] who in fact was the first economist to acknowledge the entrepreneur as a key economic factor in his book "Essai sur la nature du commerce en g´en´eral" first published in 1755. He saw the entrepreneur as responsible for all exchange and circulation in the economy. As opposed to wage workers and land owners who both receive a certain/fixed income or rent, the entrepreneur earns an uncertain profit from the difference between a known buying price and an uncertain selling price. Cantillon's entrepreneur is an arbitrageur, an individual that equilibrates supply and demand in the economy, and in this function bears risk or uncertainty.

Another classic when it comes to defining entrepreneurship is Jean Baptiste Say who saw the entrepreneur as the main agent of production in the economy. According to him the payoff to the entrepreneur is not profits arising from risk-bearing but instead a wage accruing to a scarce type of labor. So, Say is probably the first ever author to divide the entrepreneur from the simple capitalist.

2. Entrepreneurship and entrepreneur

In his "Principles of Economics," the early neo-classical economist, Alfred Marshall, also devoted attention to the entrepreneur. In addition to the risk bearing and management aspects emphasized by Cantillon and Say, Marshall introduced an innovating function of the entrepreneur by emphasizing that the entrepreneur continuously seeks opportunities to minimize costs.[2]

When it comes to entrepreneurship one of the most famous and important authors of all times is Joseph A. Schumpeter[3]. According to him the entrepreneur is an innovator who carries out five tasks:

- the creation of a new good or a new quality;
- the creation of a new method of production;
- the opening of a new market;
- the capture of a new source of supply;
- the creation of a new organization or
- industry

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[1] Cantillon, Richard. (1959). Essay on the Nature of Trade in General. Frank Cass and Company, London.
[2] Iversen, J., Jørgensen, R., and Malchow-Møller, N. (2008). Defining and Measuring Entrepreneurship. Now Publishers Inc,Hanower.
[3] Schumpeter, Joseph. (1949). The Theory of Economic Development. Harvard University Press, Cambridge.

Table 1- An analysis of entrepreneurial qualities

Quality	Essential to all non-trivial decisions	Scarce and unequally distributed	Difficult to screen for	Capable of enhancement	Essential, scarce and difficult to screen for	Scarce, difficult to screen for and capable of enhancement
Self-knowledge	✓		✓			
Imagination	✓	✓	✓		✓	
Practical knowledge	✓			✓		
Analytical ability	✓	✓		✓		
Search skill	✓		✓	✓		
Foresight	✓	✓	✓	✓	✓	✓
Computational skill	✓	✓		✓		
Communication skill	✓		✓			
Delegation skill		✓	✓	✓		✓
Organizational skill		✓	✓	✓		

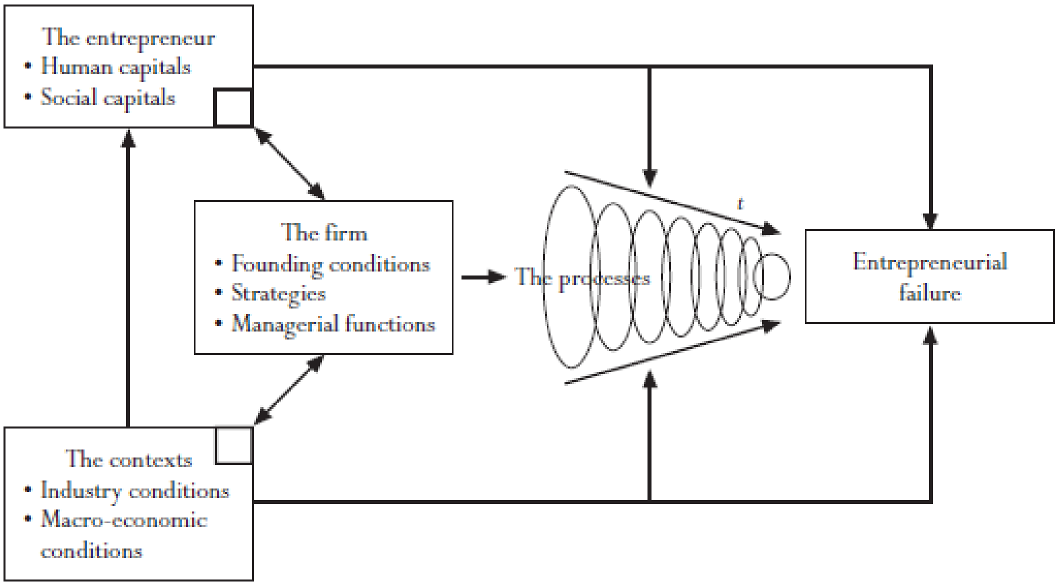
Source: Casson, Mark. (2003). The Entrepreneur: An Economic Theory. Second Edition, Edward Elgar Publishing, Inc, Cheltenham.

The plethora of studies on entrepreneurship can be divided in three main categories: *what* happens when entrepreneurs act: *why* they act; and *how* they act. In the first, the researcher is concerned with the results of the actions of the entrepreneur, not the entrepreneur or even his or her actions per se. It is generally the point of view taken by economists, such as Schumpeter, Kirzner, or Casson. The second current may be termed the ‘psychological/sociological approach’, founded by McClelland (1961) and Collins and Moore (1964), in the early 1960s. Their work provides a useful emphasis on the entrepreneur as an individual, and on the idea that individual human beings – with their background, environment, goals, values, and motivations – are the real objects of analysis.

The causes of individual entrepreneurial action constitute the primary interest of the researcher. Both the individual entrepreneur and the environment as it relates to the motives of individual entrepreneurial behavior are considered. It is the *why* of the entrepreneur’s actions that becomes the center of attention. Finally, *how* entrepreneurs act can become the center of attention. In this case, researchers analyze the characteristics of entrepreneurial management, how entrepreneurs are able to achieve their aims, irrespective of the personal reasons to pursue those aims and oblivious to the environmental inducements and effects of such actions.[4]

[4] Cuervo, Álvaro (Ed), Ribeiro, Domingo (Ed), and Roig, Salvador (Ed). (2007). Entrepreneurship: Concepts, Theory and Perspective. Springer Publishing, New York.

Figure 1- Entrepreneurial failure: An integrative model



Source: Liao, Jianwen. (2004). Entrepreneurial Failures: Key challenges and future directions in Harold P. Welsh (Ed): Entrepreneurship: The way ahead. Routledge, New York.

The argument that entrepreneurs are more willing to take risks than others are is intuitively appealing. This is totally understandable considering the fact that there is a general opinion that entrepreneurs are people who undertake risky decisions. But using a measure of risk aversion as a criterion to identify entrepreneurs is quite difficult since it is widely believed that a person's attitude toward risk depends upon his personal characteristics and his financial wealth.

An alternative explanation of apparent risk-taking is that entrepreneurs are more optimistic about the outcome of the venture because they have more knowledge in their abilities to bring about a profitable result. This explanation does not require the irrationality, or differences in innate preferences, such as risk aversion and animal spirits. Clearly, inborn talents can be very useful to the entrepreneur and much time and effort has been spent trying to determine what these innate characteristics might be. However, we can say something about the sources of *acquired* abilities. For example, Fiet argues that entrepreneurs engage in information acquisition in order to reduce the uncertainty and risks of a venture. Greater information gives the entrepreneur a greater ability to make good choices. This, and other, acquired abilities may lead the entrepreneur to be more optimistic about the outcome of the venture and make the entrepreneur appear to view the venture as less risky. Efforts to acquire abilities are essentially a form of human capital investment. The possession of these abilities may not be easily observable, say to the lender, and so the optimism that they engender might be interpreted as lower risk aversion or greater animal spirits. However, for the purposes of economic analysis, efforts to invest in human capital can be observed, from schooling and job experience to information acquisition. Thus, the question of the role of uncertainty and risk in the entrepreneurial process suggests that we consider the role of human capital investment as an alternative hypothesis for the entrepreneur's apparent willingness to take risks.[5]

3. Strategic management and strategy

Traditional business disciplines—accounting, economics, finance—have been recognized for centuries. Management per se first appeared in the patriarchal familial structures of earliest civilization, with records of management following soon after. Hammurabi's (2123 B.C.) Codification of Law mentioned accounting practices; Sun Tzu (600 B.C.) recognized such management techniques as division of labor, specialization, and the benefits of sound planning; Confucius (552 B.C.) advocated competition through merit systems while bemoaning the inherent problems of bureaucracy. In India, Kautilya (332 B.C.) wrote extensively about public administration techniques and the necessity of job descriptions.3 However, strategic management and business policy are relatively "foreign" concepts. Why? First, the subject matter is relatively new compared to traditional business topics. Second, strategic management and business policy integrates the traditional subjects with the main purpose of providing a practical, real-world view of business management. Further, strategic management is designed to develop an awareness of the processes by which organizations can achieve synergies of the whole through the effective cooperation and interaction of the many departments within an organization. Today's managers must have and/or develop the ability to see the interdependent and interrelated nature of organizations. In addition, managers must develop the necessary skills to closely interact with people from differing backgrounds. Therefore, the study of strategic management is designed to prepare current as well as future managers to meet the challenges of today's competitive and ever-changing environments.

Strategic management is the process of assessing the corporation and its environment in order to meet the long-term objectives of the organization. It refers to the series of decisions taken by management to determine the long-term objectives of the organization and the means to achieve these objectives. Once a mission has been established, strategies are developed to pursue it. An organization must develop a form of strategic management to control these strategies. Through strategic management, an organization can handle its mission while at the same time assessing the relationship of the organization to its environment. The environment, in this case, means any internal or external force that may cause an organization to stray from the path of its stated mission. Thus, strategic management becomes a component of an organization's mission. Without it, an organization would have great difficulty implementing and controlling strategies. In addition, one important point to keep in mind is the difference between intended strategy and the strategy actually realized. [6] Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its

[5] Acs, Zoltan J., (Ed), and Audrestch, David B., (Ed). (2005). Handbook of entrepreneurship research: An interdisciplinary survey and introduction. Kluwer academic publishers, Boston.

[6] Alkhafaji, Abbas F. (2003). Strategic Management Formulation, Implementation, and Control in a Dynamic Environment. The Haworth Press, New York.

configuration of resources and competences with the aim of fulfilling stakeholder expectations.

When talking about strategies and strategic management we must have in mind the strategic decisions and their main characteristics: [7]

- Strategic decisions are likely to be complex in nature. This complexity is a defining feature of strategy and strategic decisions and is especially so in organizations with wide geographical scope, such as multinational firms, or wide ranges of products or services. For example, Dell faced complexity from several issues at the same time, such as the technical nature of the products, fast-moving markets and the need to coordinate its activities over a wide geographical area.
- Strategic decisions may also have to be made in situations of uncertainty about the future. For example, in Dell's case no one can really predict with much clarity where exactly digital technologies are moving – the pace of change remains relentless.
- Strategic decisions are likely to affect operational decisions: for example, an increased emphasis on consumer electronics would trigger off a whole series of new operational activities, such as finding new suppliers and building strong new brands. This link between overall strategy and operational aspects of the organization is important for two other reasons. First, if the operational aspects of the organization are not in line with the strategy, then, no matter how well considered the strategy is, it will not succeed. Second, it is at the operational level that real strategic advantage can be achieved. Indeed, competence in particular operational activities might determine which strategic developments might make most sense. For example, Dell's knowledge of internet selling was fundamental to its success.
- Strategic decisions are also likely to demand an integrated approach to managing the organization. Managers have to cross functional and operational boundaries to deal with strategic problems and come to agreements with other managers who, inevitably, have different interests and perhaps different priorities. Dell's ability to exploit consumer markets requires a combination of good products supported by good marketing. Weakness in either will cause failure.
- Managers may also have to sustain relationships and networks outside the organization, for example with suppliers, distributors and customers. Dell's management of its supply change had been a pillar of its success.
- Strategic decisions usually involve change in organizations which may prove difficult because of the heritage of resources and because of culture. These cultural issues are heightened following mergers as two very different cultures need to be brought closer together – or at least learn how to tolerate each other. Indeed, this often proves difficult to achieve – a large percentage of mergers fail to deliver their 'promise' for these reasons

[7] Johnson, G., Scholes, K., and Whittington, R. (2005). Exploring corporate strategy. 7 Ed., Prentice Hall, London.

4. The Entrepreneurship-Strategic Management Interface

In the past 20 years the purview of strategic management scholars has been primarily to seek to understand which decisions and actions are needed to achieve competitive advantage And entrepreneurship scholars have been greatly focused trying to understand how opportunities to bring into existence future goods and services are discovered and exploited to create and grow new ventures Strategic management researchers have been interested mostly in relatively large corporations. And entrepreneurship researchers have and continue to study mostly small and medium-sized enterprises. There is a seemingly increasing intersection of these fields of study.

The creation aspect of entrepreneurship is a necessary antecedent to the performance oriented process of strategic management. Given this alignment between the two fields, the intellectual boundaries of entrepreneurship and strategic management research appear to be blurring. Articles discussing the intersection of the fields have suggested numerous research topics shared by both fields. The convergence of entrepreneurship and strategic management is being driven partly by time and responsiveness – speed of innovation and actions taken in the marketplace.

Entrepreneurial ventures are stereotyped as agile and capable of making decisions in real time. These time-compressed decision processes are created to meet the needs of customers, adapt to the environment, and compete in a continuous changing competitive landscape Large corporations with foresight have a desire to be just as nimble and are recognizing the value of entrepreneurship and the need to have their own type of entrepreneurial organization in order to remain competitive.

Technology is allowing more for less, and more in less time. As a result, the process of information gathering, decision making based on available information, and action based on the decisions made, has been compressed to the point of virtually being “real time”. Managers are now able to gather and use information, learn, innovate, make decisions, deploy resources, and react almost instantaneously. This ability is quickly becoming a necessity in hypercompetitive environments, and soon a requirement for survival. Real time demands responsiveness, speed, quick strategic thinking and planning, and the capacity to break down bureaucratic slowness. Organizations must monitor, adapt, react, initiate, and verify based on real-time information exchanges any attempt to predict long-term trends or future consumer demands in rapidly changing markets is often a futile exercise.[8]

5. Corporate entrepreneurship

Environmental uncertainty, turbulence, and heterogeneity create a host of strategic and operational challenges for today’s organizations. To cope with the challenge of

[8] For more regarding the entrepreneurship-strategic management interface see: Hitt, Michael A., Ireland, Duane, R., Camp, Michael, S., and Sexton, Donald L. (2006). Strategic Entrepreneurship. Blackwell Publishing, New York.

simultaneously developing and nurturing both today's and tomorrow's core competencies, firms increasingly rely on effective use of corporate entrepreneurship. These facts make it imperative that managers at all levels actively participate in designing and implementing a strategy for corporate entrepreneurship actions. The recent literature reveals that there is a *general* although certainly not a complete consensus around the position that successful corporate entrepreneurship (CE) is linked to improvement in firm performance. Suggest that corporate entrepreneurship is increasingly recognized as a legitimate path to high levels of organizational performance and that the understanding of corporate entrepreneurship as a valid and effective practice with real, tangible benefits is occurring across firm type and managerial levels. Other researchers cite corporate entrepreneurship's importance as a growth strategy.[9]

The literature addressing the role of corporate entrepreneurship in large established organizations points repeatedly to the need for a part of the organization to focus on future paths to growth by thinking outside the firm's cuss lit lines of business definitions of corporate entrepreneurship are many and varied, but Coven and Miles strongly advocate that innovation is central to the corporate entrepreneurship construct stating, "without innovation there is no corporate entrepreneurship" (p. 49). Though corporate entrepreneurship, a firm takes a proactive approach to product market innovation through the pursuit of risky ventures. The existing corporate entrepreneurship literature fails to adequately account for the role of innovation Radical innovation frequently leverages advanced technology as its basis for advantage, which ultimately results in the creation of new businesses for the firm and, frequently, the creation of entirely new markets. Firms failing to invest in radical or breakthrough innovation may achieve a certain degree of success, but limit their growth potential and put their long-term
Survival at risk.[10]

6. Conclusion

Taking into account the fact that the interactions between entrepreneurship and strategic management are two-way, we have discussed the causes of individual entrepreneurial action and strategic management processes that constitute the primary interest of the research. Both the individual entrepreneur and the environment as it relates to the motives of individual entrepreneurial behavior are considered.

Strategic management is the process of assessing the corporation and its environment in order to meet the long-term objectives of the organization. It refers to the series of decisions taken by management to determine the long-term objectives of the organization and the means to achieve these objectives.

Certainly the development of strategy can be viewed from different angles, but cannot escape the reality that there is potential for development Once a mission has been established, strategies are developed to pursue it.

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9 Katz, Jerome A. (Ed), and Shepherd, Dean A. (Ed). (2004). Corporate entrepreneurship. Elsevier Publishing, Amsterdam.

10 Enfring, Tom. (2005). Corporate Entrepreneurship and Venturing. Springer Publishing, Amsterdam.

An organization must develop a form of strategic management to control these strategies. Through strategic management, an organization can handle its mission while at the same time assessing the relationship of the organization to its environment. Development of strategic management does not come by itself but it should be well planned and conducted, in a professional manner planned by the host use of existing resources with respect for both the individual entrepreneur and the environment as it relates to the motives of individual entrepreneurial behavior and strategic management processes.

The convergence of entrepreneurship and strategic management is being driven partly by time and responsiveness – speed of innovation and actions taken in the marketplace.

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